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The Province of Alberta

IN THE MATTER OF "THE NATURAL
GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into
Scheme to be adopted for Gathering,
Processing and Transmission of
Natural Gas in Turner Valley

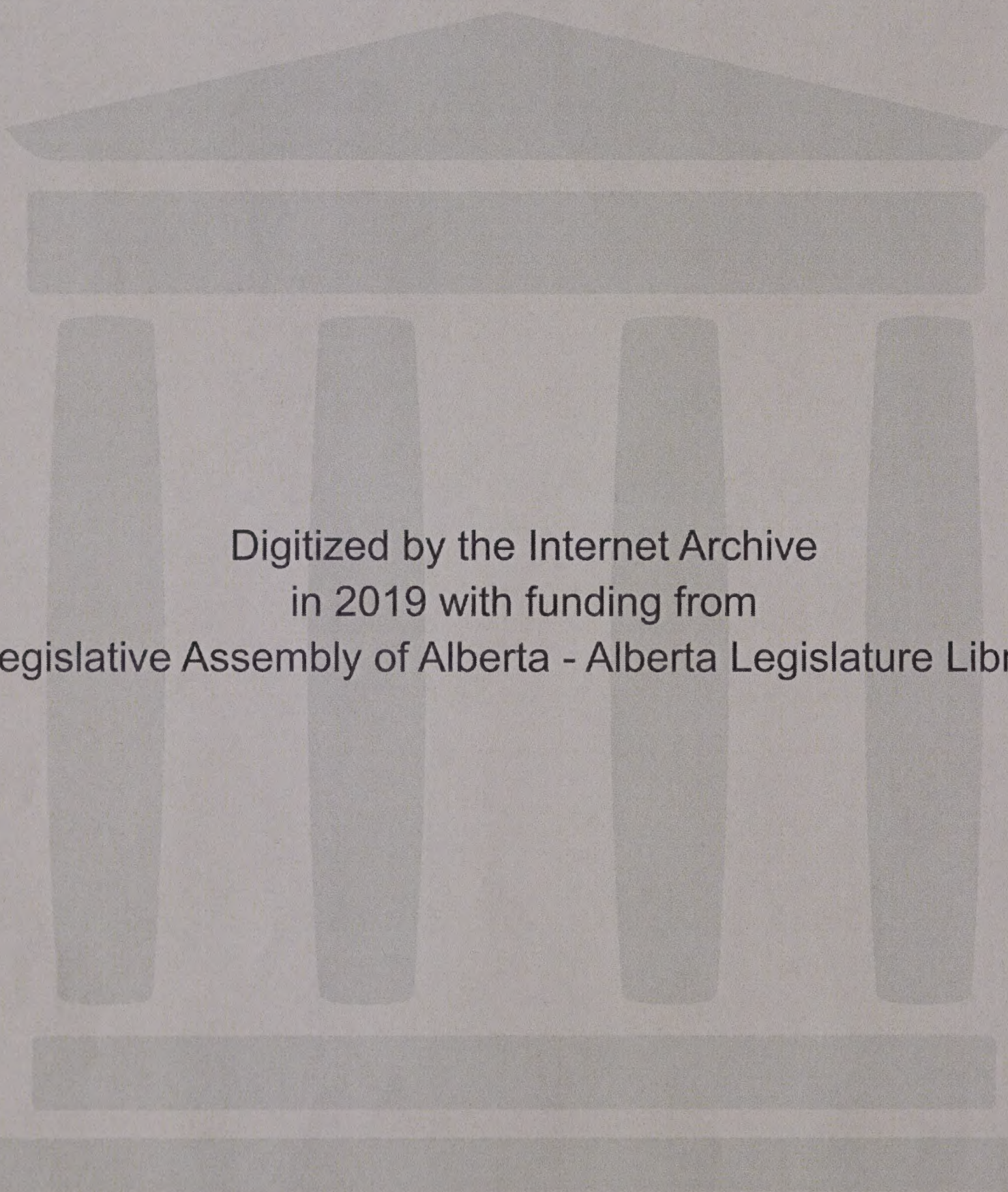
G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta June 21st, 1946

VOLUME 91



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VOLUME 91

June 21, 1946

MR. CHAMBERS: Mr. Chairman, I would like to point out this, - adverting for a moment to the prudent investments as the test or measure of fair value.

Now I suggest my learned friend Mr. Blanchard's argument yesterday and what Mr. Hamilton said in the box and said yesterday as to the difficulty in what should or should not be included, that he had in his mind with respect to the various items of expense, for instance the items of ^{the} expense which were in/1943 and the changes which were made, he had Mr. Hill's value of reproduction costs which are considerably less, and Mr. Hamilton was then confronted with the situation that, here is something under extraordinary circumstances where costs run higher, therefore I am going to throw them out. Now I say that in itself illustrates the weakness of the so-called "prudent investment" and in any case, sir, I would like to just mention that, according to Mr. Stevens-Guille at Volume 69, page 5674, it is abundantly clear that those costs which we asked to be included in the prudent investment rate base with respect to the change over are not attributable to the gasoline business or the refinery business but were directly attributable to the conservation of gas for the market.

MR. BLANCHARD: And that applies to the \$29,000 item.

MR. CHAMBERS: Mr. Stevens-Guille says this, in answer to Mr. Fenerty:

"Q. And your reason, I take it then, for seeking to load the cost of this construction on the consumer is that you now say they were not constructed solely for the purpose of supplying His Majesty's needs of alkylate blending agent."

Argument by Mr. Chambers.

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And then the answer:

"A. Again, as I said before, they were not constructed to produce iso-butane. Iso-butane supplied to the alkylate plant was already being adequately supplied by the equipment as then set up. They were constructed under conservation which was then being urged by the Conservation Board."

And I would also say that even on the assumption that they were done for the gasoline industry, I would ask you to bear in mind that, according to Mr. Hamilton's set-up, as to the allocation of costs, here is something which the largest consumer and the largest ratepayer of this utility gathering system requires in the future. We can assume that and notwithstanding they are charging, as I submit, the absorption plants' heavy costs, out of all proportion to its volume, without any relation to the absorption business, we are now asked to leave it out of the construction costs or the prudent investment costs.

Now one word as to "future amortization".

Mr. Steer and Mr. Fenerty suggested shorter amortization.

And my answer to that is this, that Mr. Fenerty's suggestion is /that the present day consumer is paying for a part of the future consumption for future consumers if you take the shorter period, and then secondly I will point this out as to the test of reasonableness, what other people are doing in this gas utility business and I refer to the fact that the 1939 order which was an agreement between the City and the gas company and which is part of Exhibit 69, instead of shortening the amortization period of the Gas Company, they deliberately lengthened the period to 30 years. Now I say

Argument by Mr. Chambers.

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if that is the test of reasonableness, why did not the City insist on a shorter period as had previously been set up or even ask for a shorter period still, in order to get a lower rate of return because that is the reason my friend Mr. Fenerty, as I understand it, shortens the period, it is in order to lower the rate of return.

MR. FENERTY: I was trying to give you security.

MR. CHAMBERS: Well my reply to that is, it is his client's security and the Gas Company and if in giving the Gas Company security the term were shortened, he thereby would get a lower rate of return.

Now I merely say in answer to my learned friend Mr. Blanchard as to the 7% rate:

He admits that the average rate of the Gas companies in the United States is $6\frac{1}{2}\%$ and my friend Mr. Hamilton interjected that the differential was at least $3/4\%$ as between the American rate and here and that in itself would be $7\frac{1}{4}\%$ and I do suggest, sir, that the evidence shows that the kind of proposition we are dealing with here should be considered as carrying more risk than the average utility, gas utility, in the United States, and that is evidenced by the fact of the 8% of the Valley Pipe Line Company or the $8\frac{1}{2}\%$ of the Gas Company.

Now sir, I am not sure that it is on the record but we have all talked about it and I would like to file as part of this case a certified copy of the Order of the Public Utilities Board fixing the 8% for the Valley Pipe Line Company. I do not need to file it but I will if all parties will admit it as part of the record.

THE CHAIRMAN: Well have we not reached the stage,

Argument by Mr. Chambers.

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Mr. Chambers, where the evidence is all in?

MR. CHAMBERS: Yes, but I do recall that that was mentioned a number of times.

THE CHAIRMAN: Surely there should be a time limit as to when I should stop hearing evidence.

MR. CHAMBERS: I bow to your ruling, sir, but I do submit it would be of use to you to have it on the record, the facts as to the fixing of the 8%.

THE CHAIRMAN: It is on the record half a dozen times, Mr. Chambers, and no one has disputed it and if you will recollect when you yourself mentioned it, I pointed out that the Valley Pipe Line Company gave evidence at the last Hearing that showed a life of 7 years.

MR. CHAMBERS: Very well, I will not emphasize that any more than what I have said.

THE CHAIRMAN: And I am suggesting that I think that no further evidence should be admitted.

MR. CHAMBERS: One other point with reference to "accrued depreciation", and I am referring particularly to the British American.

I would point out, sir, that both in the British American argument and in Mr. Hamilton's exhibit 194, and I think also in Mr. McDonald's computation, a provision is made to amortize the transmission lines from the B.A. plant to the Madison structure on a 10-year basis or alternatively on the basis of a throughput of 25.81 billion. Now I would also point out that the British American Exhibit 185, as well as the evidence adduced, shows that that line is intended to carry another 12 billion at least, or a total of 38 billion. True it is that the 12 billion will be probably carried after the 10-year period but that line was built to carry so much

Argument by Mr. Chambers.

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gas over its life. According to the evidence of Dr. Katz and the computations made, he estimated 45 billion.

Now I submit, sir, that that line should be amortized on the same basis as the Madison or the same basis as the other units in the British American, over the period of the life which it is going to be used and useful in this field.

Now I will just briefly touch on the matter of "allocation" of these charges.

Now my recollection is that Mr. Blanchard said that the 40-60 charge to the absorption plant, the Royalite absorption plant in the exhibit filed yesterday, Exhibit 194, was arbitrary. Then later in his argument he said that he was not sure that it should not be 50-50 and he agreed that consideration should be given to it in that regard and as I understand it Mr. Steer and Mr. Fenerty based 50-50 primarily on the basis of benefits.

MR. STEER: Now I doubt very much whether my argument will be found to be on the basis of benefits at all. I was attempting to make application of the volumetric use principle to the absorption plant and when I began to talk about "benefits" I was talking about the suggestion made by the Royalite Company that their absorption plant would not be profitable.

MR. CHAMBERS: Now, sir, I suggest this, that there is precedent and it is based on reason, that at the well-head the producer owns two things: He owns dry gas which is subject to regulation by this Board. He owns wet gas, gasoline, which he is free to do what he likes with and he says, instead of sending that wet gas into the market, "I

Argument by Mr. Chambers.

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want it treated otherwise and he has made arrangements accordingly to sell it to somebody else. Then we have the utility company with a certain equipment at the well-head and

with the absorption plant and then also with the gas lines. And the producer, in effect, says to the utility company: "I want you to take this product." And I suggest that the best thing you can say about it is that those two things are mixed and that it makes no difference to the utility company, as such, whether one is valueless and the other is valuable or not, so I therefore suggest that the customer of that utility should bear his proportionate share of those costs.

Now, sir, I would refer to the Colorado case and I want to give you, sir, the citation on the record of the report that contains the Commission's decision.

The Commission's decision is found in Volume 43 of the Public Utilities Reports at page 205, and the decision in the United States Supreme Court confirming the decision of the Commission is found in 58 Public Utility Reports, page 65.

Now in that connection as mentioned on page 201 of the Commission's decision it is clear that there was an absorption plant as part of the production facilities and that the Commission had to allocate the charges as between the Inter-state business, which was purely a dry gas market and the Texas business which was the gasoline and any other products.

Now the Commission, with the approval, the full approval of the United States Supreme Court, had the problem of deciding how much of the field production costs should be allocated to the dry gas market and in those

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Argument by Mr. Chambers.

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production costs was not only the cost of the leases which were necessary to produce the wet gasoline for the unregulated part of the market but also of all the gathering lines which carried both the wet content and the dry content, and the Commission in order to arrive at the reasonable basis of allocation as between the regulated and the unregulated took the straight volumetric costs.

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Argument by Mr. Chambers.

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And I say that in answer to my friend that the gas would be certainly necessary in that case to bring the oil and gasoline to the top.

THE CHAIRMAN: And Mr. Chambers, is it not that the gas is just as much of a carrier of the natural gasoline as the pipeline through which it will flow.

MR. CHAMBERS: To bring it to the surface of the ground.

THE CHAIRMAN: No, it reaches the well head and then it goes on its journey to the absorption plant and the natural gasoline is just as much a part of the carrier as the pipeline through which it will flow?

MR. CHAMBERS: It occurs to me that what brings it to the top of the ground is the pressure in the natural formation but when you come to put it through a pipeline well it is mixed. It is not the mere volume of the dry gas that transports the gasoline from the well head to the absorption. It is the pressure. It is the artificial pressure.

THE CHAIRMAN: Supposing you did not have pressure and you put on the pressure to take it down to the absorption plant if there was any.

MR. CHAMBERS: I beg your pardon.

THE CHAIRMAN: If there was not sufficient pressure when it came out of the well to go to the absorption plant under its own steam you would put in a compressor but the natural gas would still be the carrier for the natural gasoline.

MR. CHAMBERS: Well I submit not, sir.

THE CHAIRMAN: Well how does it get to the absorption plant?

MR. CHAMBERS: I submit that the wet content could be carried to the gasoline plant much more cheaply if it were not for the dry gas, the residue gas but even if it is necessary.....

CHAPTER 1

The first part of the book discusses the importance of understanding the context of the data. It emphasizes that data is not just a collection of numbers, but a reflection of the real world. The author argues that without a proper understanding of the context, any analysis of the data is likely to be flawed. This is particularly true in the case of social and behavioral data, where the context is often complex and multifaceted. The author provides several examples to illustrate this point, including data on crime rates and educational outcomes. In each case, the author shows how a lack of context can lead to misleading conclusions. For example, a simple comparison of crime rates between two cities might suggest that one city is safer than the other. However, if we take into account factors such as population size, climate, and economic conditions, the picture becomes much more complicated. Similarly, a comparison of educational outcomes between two schools might suggest that one school is better than the other. However, if we take into account factors such as student demographics, teacher experience, and available resources, the picture becomes much more complicated. The author concludes that a proper understanding of the context is essential for any meaningful analysis of data. This is particularly true in the case of social and behavioral data, where the context is often complex and multifaceted. The author provides several examples to illustrate this point, including data on crime rates and educational outcomes. In each case, the author shows how a lack of context can lead to misleading conclusions. For example, a simple comparison of crime rates between two cities might suggest that one city is safer than the other. However, if we take into account factors such as population size, climate, and economic conditions, the picture becomes much more complicated. Similarly, a comparison of educational outcomes between two schools might suggest that one school is better than the other. However, if we take into account factors such as student demographics, teacher experience, and available resources, the picture becomes much more complicated. The author concludes that a proper understanding of the context is essential for any meaningful analysis of data.

Argument by Mr. Chambers.

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THE CHAIRMAN: But you would not need the absorption plant at all. It would just come out.

MR. CHAMBERS: That is right, certainly. But I say, sir, even assuming it is necessary I say that in the Colorado case, the Canadian River case, I am prepared to admit that the dry gas compressed in its natural formation would mean bringing the natural gasoline to the top of the ground and in that case production costs, gathering costs, allocated as between the residue dry gas market and the unregulated production varies in the ratio of volume.

THE CHAIRMAN: Why don't you charge some of the cost to the natural gasoline coming from the ground to the top of the well. That is just another pipeline.

MR. CHAMBERS: Well the simple answer here is that the Legislature says it is not in the picture. You start at the top of the well. The Legislature has not gone that far. That is my understanding. We may have complications here.

THE CHAIRMAN: I suppose because nobody thought of such a thing.

MR. CHAMBERS: I have no doubt that perhaps Mr. McDonald will have some more information on that and I think someone has thought of it at some time. Then, sir, it has been suggested that you should make pragmatic decisions and my suggestion on that basis is that means arbitrary decisions.

And if the gathering charges are such that it ceases to be profitable and the charges are more than the value of the service there is a possibility that the customer may disappear. Then you have the situation where the consumer of the market will pay all the charges and that is one of the consequences I see to be taken into

Argument by Mr. Chambers.

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consideration and merely for the purpose of information I herewith file, whether as an Exhibit or not, a statement but I say that on the basis of the Exhibits filed, and I am referring particularly to Exhibit 156 which was filed by Mr. McLellan in connection with the Royalite absorption plant and taking Mr. Hamilton's 40%, that this absorption plant operation will be such that there would not be enough business to operate it and I would like to mention in that connection these figures that I have in mind.

THE CHAIRMAN: This is a calculation.

MR. CHAMBERS: Pure and simple.

STATEMENT OF ANALYSIS OF MADISON'S
CHARGES TO ROYALITE ABSORPTION
PLANT, ETC., NOW MARKED EXHIBIT 195

Now in order to save time I will not pretend to examine it other than to say that those figures at the bottom which represent the percentage of the gross that is left, our gross profits, which will have income tax if there were any net profits and just in that connection I would like to raise this point as a matter that I suggest should be given consideration that on the statement or admission of my learned friend's witness, this absorption plant is not necessary to run the gas marketable to the consumer market. Now I say taking that position when you come to revising or approving of the contract which is to be entered into by Madison with the Canadian Western, there should be a provision that Madison is assuming no responsibility for the suitability of this gas because the gasoline content has not been taken out.

Now in answer to the suggestion made by Mr. Blanchard, when Mr. Stevens-Guille was in the box as to what assurance Madison would have that it would have merchantable

Argument by Mr. Chambers.

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gas. If Mr. Stevens-Guille was right, that the gasoline plant was necessary for the purpose of making the gas marketable. Now in that connection I obtained specific instructions that if that were so, in order to render Madison's position where it could deliver merchantable gas and assuming of course that the charges to the absorption plant were to be fixed in accordance with the volumetric method that the absorption plant would run the risk of operating in the latter years at a loss and give an undertaking but I submit now, sir, in view of the action taken by the Gas Company and the City, they do not need that. With the gasoline content removed it is a different situation.

I do think that is a matter that your Board should take into consideration in the light of a duty that will arise following your decision as to the terms and conditions of the contract.

Now, sir, and I am just about through with this part. Although you yourself have intimated and my friend Mr. Steer asserted most strenuously, that no reliance whatsoever should be placed upon the Gas Company's balance sheet.

THE CHAIRMAN: I did not say that. What I said, Mr. Chambers, was that my own auditor tells me that he cannot draw any conclusion which he can assure me is accurate from the balance sheet.

MR. CHAMBERS: Well I would like to raise this so that is a reason why I suggest to the auditor or to you, sir, or to your auditor through you that there are certain deductions that we could rely upon that may be drawn from this balance sheet.

In the first place I should like to say that I merely said that on the basis of the 1945 volume of business in certain things, the Gas Company could have and I

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Argument by Mr. Chambers.

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do not pretend to say that was the exact situation, for every year in the future but it is more or less but I do suggest that if any inference can be drawn from this balance sheet in respect of 1945 it raises the presumption and if my learned friend says that he has not the ability to pay - that the service is not worth that much that it is beyond the agreement, it is throwing a burden on him to do some explaining or give evidence in answer to it.

THE CHAIRMAN: You see, Mr. Chambers, I know of a public utility earning its rate of return on its rate base and yet its balance sheet shows it to be losing money.

MR. CHAMBERS: Well, sir, that is just what I want to direct my attention to for a moment. We have certain other information in this hearing which with the balance sheet I submit gave us something from which we can draw conclusions.

I would point out first of all that we have Exhibit 139 which are the Board's orders for 1921, 1926 and 1931, and we have Exhibit 149 which is the 1939 Public Utilities Board's order and we also have the evidence of Mr. Stanley J. Davies as to the circumstances and negotiations which resulted in that order, Exhibit 149, and we note from those Exhibits that the 1921 Order gave the Gas Company a \$7,100,000 rate base and we know from that same Exhibit that the 1926 order gave the Gas Company a rate base of \$6,492,000, and we also know from that same Exhibit that the 1931 order gave the Gas Company a rate base of \$8,268,044. Now 1931 which is part of the same Exhibit also shows that the 1932 amortization charge of \$150,000 odd for 1932, and also shows the production or change of life as the basis for depreciation then.

THE UNIVERSITY OF CHICAGO

THEORY

The first part of the paper is devoted to a discussion of the general principles of the theory. It is shown that the theory is based on the assumption that the system is in a state of equilibrium. The theory is then applied to the case of a system of particles, and it is shown that the theory is in good agreement with the experimental results. The theory is then applied to the case of a system of molecules, and it is shown that the theory is in good agreement with the experimental results.

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Argument by Mr. Chambers.

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Then we have Exhibit 149, the 1939 order, and that itself shows what the amortization reserve was at the end of 1939, \$3,500,000 which shows that there is to be an annual depreciation of \$122,000 roughly.

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H-1-1 10.30 a.m.

Argument by Mr. Chambers.

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And then it shows that the depreciation reserve was changed to a thirty-year straight line basis less 10%, and ^{to} that straight line basis I attach a great deal of importance.

Now, it is also to be observed, Sir, while Mr. Davies in his evidence refers to a net rate base of the company in 1939 of four million five, or a gross of about eight million, the analysis which I filed and taken from the balance sheets at the end of 1944 uses for the 1939 net rate base of five million two hundred thousand odd, which is greater than Mr. Davies thought, and a gross of eight million eight hundred thousand odd. True, I cannot know all the details, but I submit that if the figures are larger than what the other evidence is, that they have not just been taken or picked out of a hat.

Now, the footnote to the balance sheets of the Gas Company, not the last one particularly, but the printed footnote to the balance sheet, and I am referring to the footnote No. 2 in the 1938 balance sheets and continued in some of the subsequent ones, indicates, I submit, that the reserves for amortization shown on the balance sheets as a ^{Board} utility/reserve because it is segregated, and as far as the general reserve, it is not in the picture, and I submit that from looking at the document, that any chartered accountant would know that there is 1,700,000 of a general reserve that remains constant, and a net operating income of six hundred sixteen thousand is actually shown on a 1939 Profit and Loss Account. No matter what the balance sheets show, the Profit and loss must show the income, and it is on the Profit and Loss account and there is where this income comes from that we have incorporated into our calculations.

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Argument by Mr. Chambers.

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And I submit that the provision for annual depreciation taken from the balance sheets is consistent with those Board orders, and I also point out that the income shown on the Profit and Loss account is segregated to show what comes from the gas business as distinguished from any other sources of revenue.

Now, while it has been suggested that the information was misleading, he did not suggest it deliberately, I do not say, but I think his arguments about the avoidable costs are enlightening. True, the analysis which I used allows for a 40% income tax and the income tax paid by this company on the balance sheets is considerably more than that. True, my calculations use a net rate base that is on the straight line method, and my learned friend, I am frank to admit, disagrees with the use of a net rate base in the instance of his company. But all I am saying is this utility that is being set up, the utilities that you are now dealing with, that everybody is assuming they are being set up on the net rate base. In other words, if there is any cash in the depreciation reserve, it is not part of the rate base; there is no return on that, and I suggest, sir, that my comparison so far as the 12% rate of return, shown on the exhibits that I filed, is an analysis in respect of the actual operations of the Gas Company for 1945, and they will show on the basis of a net rate base and the 40% rate of return, the net profit that I have indicated.

And there is the question of avoidable costs, that is a matter that is facing us. But my appreciation, Sir, is that so far as the utility companies are concerned, they are only usually, at least, allowed such expenses as are necessary for the carrying on of the business in serving the public.

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CHAPTER I

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Argument by Mr. Chambers.

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Now, if the utility be a gas company or anybody else who charge rates or who make a return that necessitates paying taxes which by another course of action could have been avoided, I submit if that principle is adopted and followed by the Utility Boards, it should be applied all along the line, and I, for one, have no suggestion with regard to that in this hearing, and I did not have in the Valley Pipe Line. I do not propose to suggest that companies should be allowed excess profits taxes, because I think those are avoidable taxes and avoidable expenses.

Just one more point, Sir, and I am through, and it arose from what Mr. Hamilton said yesterday. In his exhibit 194 it is set up as an illustration, he goes back and adjusts everything back on his basis to 1944, and he then assumes and says, "There is this for consideration, and that if these charges to the absorption plant are made retroactive to 1944, and my" that is Hamilton, "rate of return taken, and there will be" I think he said something like \$300,000.00 probably by the end of 1946, which would be available for the well head price.

Now, I would submit this, Sir, no matter what rates are fixed by your Board, or on what basis they are fixed, that under this Act, as under all public utility acts that I know of, the rates and charges can only be affected from the time of the Order, and that the Board cannot, at this time, say to any customer, whether Royelite or the Gas Company or anybody else, "I am going to fix rates now in September or October or December, 1946, that you are going to pay as from the first of 1944."

Now, it is true your Order No. 9 did make certain provisions that as from the 1st of January,

Argument by Mr. Chambers.

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1945, that those utility companies by reason of expenditures they had made to cover loss, that the loss should be capitalized as part of the rate base, and by the same token if they made profits, those profits should be deducted from the rate base, and that Order, I submit, was specifically provided for in Section 35(a) which was amended.

One other point and I am through, Sir....

THE CHAIRMAN: But, Mr. Chambers, in 1944, you say that you could have arrived at a rate of return of say 25% per annum in your rate base, and I could have nothing to say about that?

MR. CHAMBERS: Yes sir.

THE CHAIRMAN: You could have done that?

MR. CHAMBERS: Yes. And on the same token if we had lost 25%, we could not have got any relief.

THE CHAIRMAN: No, no. You made your calculation for 1944 on the basis of $9\frac{1}{2}\%$ per annum, as the return on your rate base, and could you have made it 25% per annum?

MR. CHAMBERS: Yes, sir.

THE CHAIRMAN: If that is so I will try to find a way of getting around that.

MR. CHAMBERS: That is a very interesting remark for the record, Sir.

THE CHAIRMAN: I did it deliberately, Mr. Chambers. I am not afraid of the record or any counsel before me.

MR. CHAMBERS: I am not suggesting that you are, Sir, but I am just saying that it might be of interest at some other time, that is all.

Now, then, with regard to Mr. Fenerty's suggestion that you have no control whatsoever and should not take into consideration the service plants. I say that the

Argument by Mr. Chambers.

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definition of a public utility in Section 2(k) of the Act includes this definition,

"Any well, any system, and works, and plant, any equipment or service used for the purpose of, or in connection with or incidental to the production, transportation, purifying, drying, scrubbing, compressing or repressuring natural gas."

Section 49, which is the section that deals with the rate base, clearly says that you have the right to include in that rate base and appraise or fix a fair value of any property necessary for the purpose of carrying out the purposes of the Act.

Section 72, the amendment that was passed in 1945, in Clause (f) I think it is, says that you have the right to fix prices for any, a just and reasonable price to be paid for all services over which the Board has jurisdiction. And I say that the definition of a public utility gives you that jurisdiction.

THE CHAIRMAN:

Mr. Harvie?

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[illegible][illegible]

Argument by Mr. Harvie.

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ARGUMENT BY MR. HARVIE

MR. HARVIE: Mr. Chairman, Mr. Chambers has covered the general points requiring rebuttal so effectively and thoroughly that again I find there is little, if anything, I can add, so that generally speaking I join with him in his contentions but there are a few points on which it is apparent that we are not in entire accord, of which I think special mention can be made at this time.

This morning he did mention the possible change in the basis of depreciating or amortizing the B.A. transmission lines from the high pressure station to the Madison scrubbing plant. His suggestion was that our company's submittal was that it would be depreciated on the units that went through in our ten year period which we estimated at roughly 25 billion cubic feet. I think our own submission says, and it is a recognized fact, as Mr. Chambers pointed out, that we all anticipate there will be another 12 billion feet to go through after the set-up, after the 10 year period.

So far as we are concerned, and particularly in view of Mr. Steer's suggestion, we thought that the transmission line was possibly an item that charges in respect to it should be borne by some company. We have no objection to the final rate base or final amortization depreciation being adjusted to give effect to the suggestions.

(Go to page 7449.).

1. *Chlorophyll a* and *Chlorophyll b* were determined by the method of Arar and Collins (1971) using a Shimadzu 1010 UV-Visible Spectrophotometer.

T-1-1 10.45 A.M.

Argument by Mr. Harvie.

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There were many other points raised, Mr. Chairman, and suggestions made that we do not necessarily agree with, as I think may be quite apparent, but I only propose to deal with a few of the more important of those, and I assume the mere fact that I do not mention them all in detail would not be taken that we agree with them.

I think the first matter I would like to deal with is the suggestion of the counsel for the City and the Gas Company and the Producers, and also for the Board, dealing with the basis on which Order Number 1 was granted by the Board. They quote from the transcripts of the original Hearings and say, in effect, that my client offered to make the installations on the basis that the cost of operating and paying for the same would not increase the then existing $7\frac{3}{4}$ cent price payable by the Gas Company for the city market. We have no hesitancy in saying that was our submission originally and we anticipated that that could be done and that we would be prepared to go ahead on that basis provided, and I think this is most important, provided that we were left alone to work out our own arrangements as to who would contribute and who would not by agreement with those directly affected in our end of the field, which would be the absorption plant, the producers, the South End drillers or any other markets or any other places that we cared to look for some income.

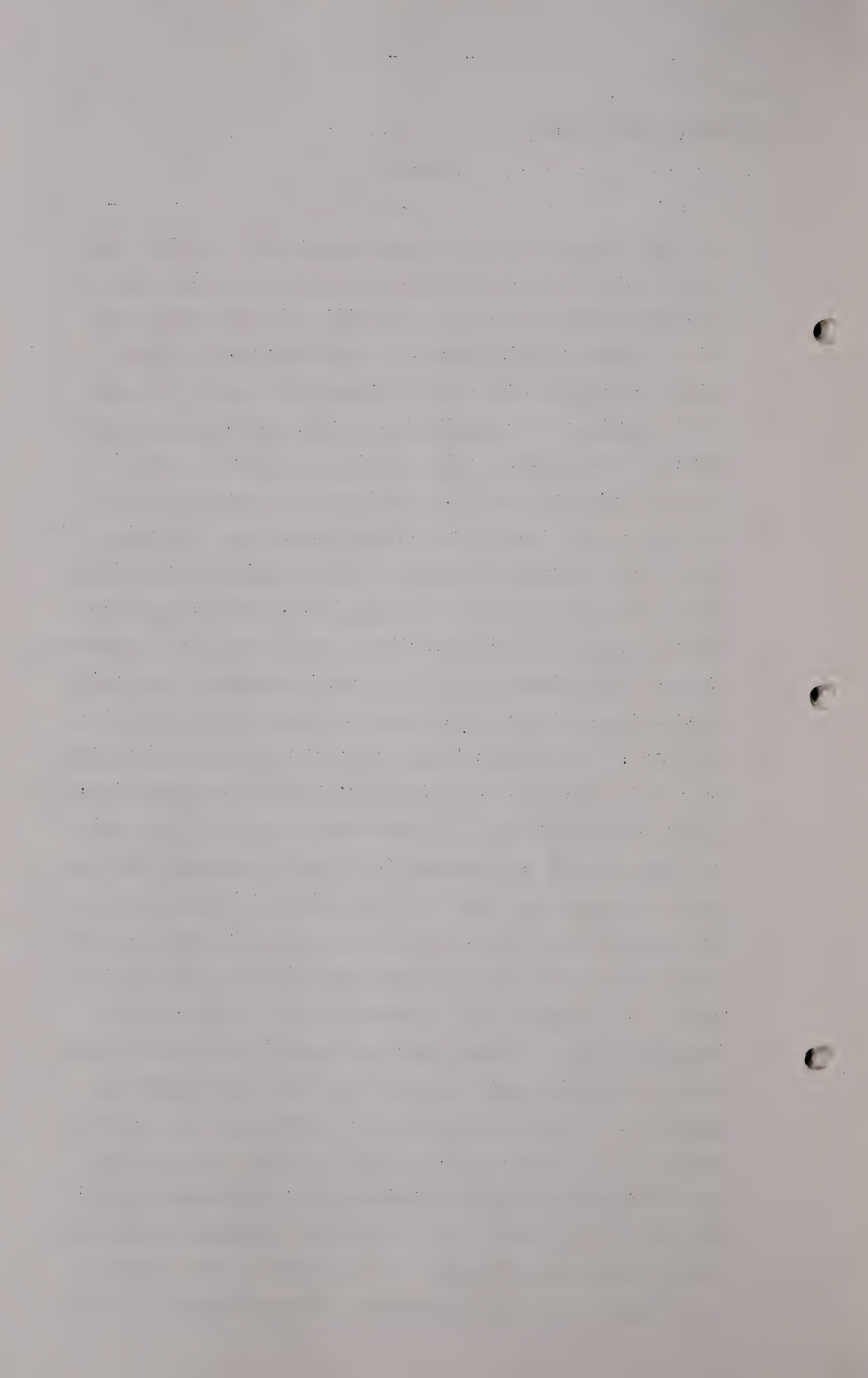
THE CHAIRMAN: And you were left alone, Mr. Harvie, to do that were you not?

MR. HARVIE: I will deal with that in a moment, sir. Our submission is that we were not. As I say, we were prepared to take the risk on that basis but it was pointed

Argument by Mr. Harvie.

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out very definitely that the only thing that we might not have absolute control over by way of agreement would be scrubbing costs and we also said that we would leave ourselves in the hands of the Board and accept the ultimate price they set for that and still take the risk in respect of the balance. I believe our position is clearly stated in Volume 3 at page 154, which I propose to read. I might point out that that was, the statement was made by me at a Hearing of this Board on the 11th of May 1944. That was before any Order was granted and it was before we knew just what was going to be done. I think at that time your Board had the Madison A submittal before you; you had the alternative Madison B submittal and you also had our original submittal as presented in a letter addressed to Dr. Boomer, which is Exhibit 1, of the 21st of April and you also had the benefit of a good many interviews and discussions between the various parties in the interim. At that Hearing on the 11th of May we stated, and I quote: "However we have confidence that the price this Board will set will be a fair one for scrubbing, and on that basis we are prepared to go ahead with our entire submission at once, on the basis that we will accept the $7\frac{3}{4}$ cents for our gas on the downstream side of the Royalite scrubbing plant. We will pay the Royalite or the then owner of the scrubbing plant the cost that this Board sets for scrubbing. We will then make our own arrangements. We will then do one of two things - ", and I submit this is by way of an alternative offer or suggestion to whomsoever might accept it, the Board or the Producer or otherwise - "we will then do one of two things. We will abide by any direction of the Board as to the distribution of the remaining amount



Argument by Mr. Harvie.

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if they so direct, or alternatively we will make our own arrangement with those affected which would be the producers. And in most of the cases we have already made arrangements under contract which will fit into that scheme. In those cases where we have no contract they will either be left out of the scheme or make some new arrangements. We are prepared to take that risk."

I say that is a very concise summary of our position at that time, which may be the only complete one which has been read into the record. I think those others that have been read in from other parts of the evidence only dealt with some part or having in mind some other factor and particularly left out the reference which I think is all-important, that we must be left alone to make our own deals with the producers and others in that end of the field.

MR. McDONALD: I may say I read that extract into the record.

MR. HARVIE: If you did This is not by way of any criticism I make that statement, but I say that is I think the best statement that can be made. I think my learned friends, in suggesting we got our Order Number 1 on that basis and on that basis only have entirely overlooked the fact that it was not the basis on which the installations were made.

THE CHAIRMAN: Pardon?

MR. HARVIE: That is living within the $7\frac{3}{4}$ cents was not the basis that we made our installations on. The basis was the alternative which was that we would pay and do as the Board directed subject to a letter amplifying, changing and amending the original submission.

Argument by Mr. Harvie.

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THE CHAIRMAN: What letter is that, Mr. Harvie?

MR. HARVIE: I propose to read it. I have just one more comment to make first. I just point out I think counsel for the City and possibly the Gas Company may or may not, as far as I know they did not have any knowledge of that letter and that being the case it is quite possible that their comments might be more justified than those of other counsel who had knowledge of it. I think undoubtedly - well I know counsel for the Producers had it, and I have reason to believe that counsel for the Board would have seen it. I do not know whether he did or not.

MR. STEER: For the Attorney-General.

MR. HARVIE: Counsel for the Attorney-General, whichever he may be. That letter is a letter of June 3rd, 1944, addressed to our firm by the Board setting forth the terms and conditions on which Order Number 1 was issued.

THE CHAIRMAN: Now, now, Mr. Harvie, that is utterly and completely wrong.

MR. HARVIE: In what respect, Mr. Chairman?

THE CHAIRMAN: Will you show me anything in Order Number 1 that is based on that letter?

MR. HARVIE: May I read the letter and let it speak for itself?

THE CHAIRMAN: No, I would not let Mr. Chambers put in evidence this morning and I am not going to let you do either. Now Mr. Harvie, will you please give me your recollection of the circumstances under which that letter was written; what you were to do, and tell me if you did it? Now will you please tell us that first?

MR. HARVIE: I will say this, Mr. Chairman, that I

Argument by Mr. Harvie.

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think the letter very clearly outlines ;

THE CHAIRMAN: Tell me the circumstances leading up to the writing of the letter and the conditions under which it was written.

MR. HARVIE: I would say the circumstances were these, that I was advised by the Board that our submittal was not going to receive attention and the Madison A Plan was going to be given effect to. I asked for further consideration and if I remember correctly I had knowledge at that time that the Board had their consultant, Mr. Elmes, in town, with whom they had been discussing the matter. I believe I asked if that was the recommendation of Mr. Elmes. I also asked if we would not be granted an opportunity of discussing the matter with him, which you, Mr. Chairman, were good enough to arrange at that time. We did have a consultation with him and with you, as you well remember. Then that was, I believe, on I would say the 30th of May.

THE CHAIRMAN: Monday night.

MR. HARVIE: Tuesday or Wednesday, I think.

THE CHAIRMAN: Monday night.

MR. HARVIE: The dates are all given in this letter and I can tell you if I might refer to the letter on that point when it was. The meeting that I refer to is the meeting between, "between you, Mr. Harvie, Mr. McCutchin of the British American Oil Company, Mr. Elmes the consultant for the Board and myself," that is yourself, Mr. Chairman, on the night of Tuesday, May the 30th.

THE CHAIRMAN: I had a discussion with you on Monday night, though, as well.

MR. HARVIE: Oh yes. As a matter of fact it was

Argument by Mr. Harvie.

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continuing, and if you will remember we were all handicapped as this letter again points out by the fact that your chief technical adviser I think at that time, Dr. Boomer, was in the East and we had to carry out this conversation with him, or you did, over the telephone on the matter. I submit, Mr. Chairman, that this letter does outline exactly

THE CHAIRMAN: Yes, but just a minute Mr. Harvie. The terms of that letter were agreed upon orally before I left Calgary. That is right is it not?

MR. HARVIE: That I think is so, yes. Well, subject to your consulting with Dr. Boomer.

THE CHAIRMAN: Which I had done over long distance each evening.

MR. HARVIE: Yes, I was not present at that time but I knew that you were in continuous discussion.

THE CHAIRMAN: And you were to take the instructions of your client?

MR. HARVIE: I was.

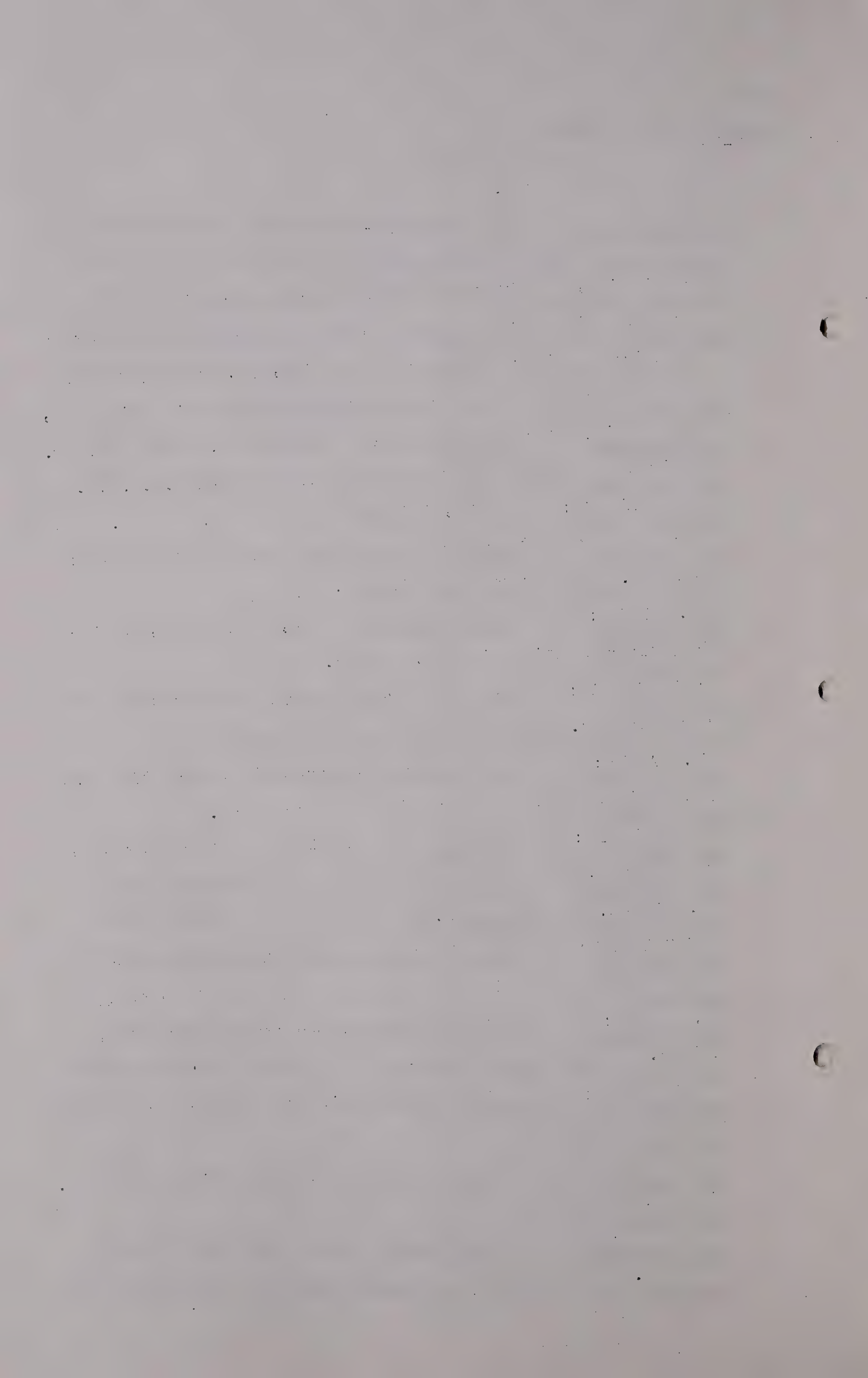
THE CHAIRMAN: And by the time I left Calgary your report to me was that you had not had those instructions.

MR. HARVIE: That is correct and you so state in the letter.

THE CHAIRMAN: Did you ever write to the Board or intimate to the Board orally or by telegram or in any other way that you accepted the conditions laid down in the letter. Did you?

MR. HARVIE: I think the letter says exactly what was done.

THE CHAIRMAN: I am asking you did you ever either orally or in writing or by communication of any kind advise



Argument by Mr. Harvie.

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the Board you accepted those conditions?

MR. HARVIE: We advised the Board, as I recollect, Mr. Chairman, that there was one condition that we wished left out of any Order.

THE CHAIRMAN: When did you do that?

MR. HARVIE: The letter says so right here.

THE CHAIRMAN: No, Mr. Harvie

MR. HARVIE: By telephone to you and you confirm that in this letter.

THE CHAIRMAN: Mr. Harvie, you were to take your client's instructions on that letter, is that not so?

MR. HARVIE: Beg pardon?

THE CHAIRMAN: You were to take your client's instructions on that letter.

MR. HARVIE: Yes and I did and I phoned you.

THE CHAIRMAN: Did you ever do that?

MR. HARVIE: Yes.

THE CHAIRMAN: Did you get a reply from them?

MR. HARVIE: Yes.

THE CHAIRMAN: What did they say?

MR. HARVIE: Just as I mentioned to you over the phone and which is mentioned in this letter.

THE CHAIRMAN: When did you give it to me on the phone?

MR. HARVIE: I will read the letter.

THE CHAIRMAN: When I left Calgary, you had not had your client's instructions.

MR. HARVIE: Certainly not, but that was the 30th of May and this letter was written on the 3rd of June and you state that I had phoned you.

THE CHAIRMAN: That was written the day I got back from

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Argument by Mr. Harvie.

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Calgary.

MR. HARVIE: Well it is dated June 3rd and the last time I remember I saw you was on May 30th.

THE CHAIRMAN: Oh no.

MR. HARVIE: I mean those two days.

THE CHAIRMAN: I went home on the 2nd of June and I think I saw you every day in the meantime.

MR. HARVIE: There is no reference to any intermediate meetings there.

THE CHAIRMAN: Mr. Harvie, you told me that you could not get instructions because some of your principal officials were out of town.

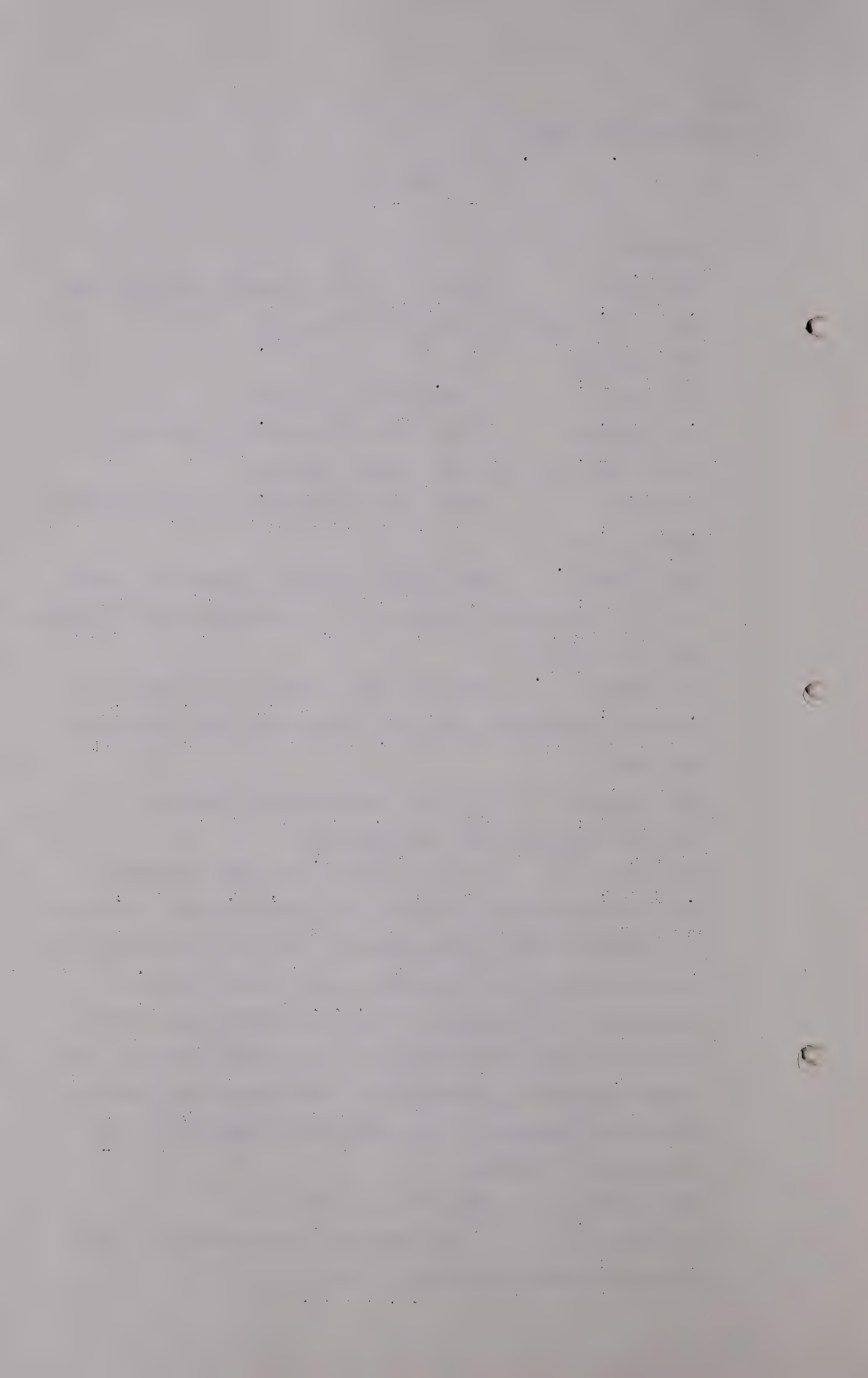
MR. HARVIE: That is true. That is the first time and then I eventually did get instructions and cited what they were.

THE CHAIRMAN: Did you ever write the Board and tell them that you had those instructions?

MR. HARVIE: I do not think I did, Mr. Chairman, because by telephone there were two things we had to do and Mr. McCutchin had a letter from the Board or from Dr. Boomer dealing with one which was the G.O.R. gas and that was looked after and answered. The other, I think my learned friend Mr. McDonald will bear me out in this, was that this letter required as a condition of our proceeding, that we obtained the consent of the producers to pay for the repressuring of the gas.

THE CHAIRMAN: Did you get that?

MR. HARVIE: I say this, that we took that up with you and pointed out to you



-1 - 11.00 A.M.

Argument by Mr. Harvie.

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THE CHAIRMAN: Mr. Harvie, on the night of the 3rd of June....

MR. HARVIE: And Mr. McDonald got in direct touch with you and dealt with you.

THE CHAIRMAN: On the 3rd of June I left the Province and I was gone from the Province for five weeks. Where did you get in touch with me ?

MR. HARVIE: Between the 30th of May and the 3rd of June and later with Dr. Boomer when he arrived and returned from his trip.

THE CHAIRMAN: Mr. Harvie, is it not the case that Mr. McDonald wrote the letter - I have forgotten the date in which he most vigorously protested against the conditions of my letter of the 3rd of June ?

MR. HARVIE: Yes, that did not change this letter because the Order was granted on it and my understanding....

THE CHAIRMAN: Mr. Harvie, the Order does not say one word about the letter. May I say that before I left I drafted an Order which incorporated the conditions of that letter and that was left for Dr. Boomer. Why would the Order be issued without those conditions being in it and why have you not made a submission to this meeting in two years based on that letter if you say our Order was issued subject to the terms of that letter. You have not made a single submission based on that letter.

MR. HARVIE: I submit all of our submissions are on that and we have not made any submissions on the basis of $7\frac{3}{4}$ cents.

THE CHAIRMAN: Well this is clear, that you were to get your clients' instructions. You had not got them when I left.

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Argument by Mr. Harvie.

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Did you get them after I left and did you communicate them to Dr. Boomer, and I know the answer is no you did not.

MR. HARVIE: I did not what, Mr. Chairman ?

THE CHAIRMAN: Communicate your clients' instructions to Dr. Boomer.

MR. HARVIE: Certainly we did. You will remember Mr. Frawley was the go-between when either you or Dr. Boomer were not present.

THE CHAIRMAN: Have you a copy of the letter you wrote to the Board after you had your clients' instructions ?

MR. HARVIE: No, I don't think it was in letter form. It was a matter of continuing conversations and the mere fact that there is no letter of that kind is because we went ahead on that and this letter did not say we had to write you a letter we had to file before we got the Order of the Board, and I say those conditions have been fulfilled. One was to look after the G. O. R. gas and the other was to get the consent of the producers.

THE CHAIRMAN: Did you get the consent of the producers ?

MR. HARVIE: No, we did not, and the reason was that the matter was dealt with by the producers direct with the Board and I think we protested but in spite of that the Board granted the Order and there was no doubt it was on the basis of this letter.

THE CHAIRMAN: But not on the basis of that letter, but on the basis of your own submission and the Board is now going to be free to deal with the matter as it pleases. We made you an offer which we thought was a generous one.

MR. HARVIE: In this letter ?

THE CHAIRMAN: You never accepted.

THEORY

1. The first part of the theory is the definition of the terms.

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MR. HARVIE: If you mean in this letter.

THE CHAIRMAN: Yes.

MR. HARVIE: I think we accepted it.

THE CHAIRMAN: Mr. Harvie, as far as I know you never did, and this is the first time I ever heard that you had instructions from your clients to act on that letter.

MR. HARVIE: Well what do you think we were acting on. Certainly not on our submittal which was a different thing altogether.

THE CHAIRMAN: Mr. Harvie, will you show me today the letter which you wrote your clients submitting that letter of mine to them in order that you might get their instructions.

MR. HARVIE: Yes, I think I can Mr. Chairman. I know Mr. McCutchin is here and I know he got the letter and I know I have mine from him. They are not all in writing.

THE CHAIRMAN: Surely if you wrote, your clients did not write to Mr. McCutchin.

MR. HARVIE: Well as you know my client was Mr. McCutchin. I think there is no question that the Company and Mr. Donellan had knowledge of that letter from the start.

THE CHAIRMAN: When did you first know of it, Mr. Donellan ?

MR. DONELLAN: This particular letter on this last trip to Calgary, it was in the file.

THE CHAIRMAN: This present trip you are on now ?

MR. DONELLAN: Yes, I was never interested in the Hearing at the early stage.

THE CHAIRMAN: And yet Mr. Donellan, is there not a marked difference between the terms of that letter and your original submittal ?

MR. DONELLAN: There is a difference between the terms of

Argument by Mr. Harvie.

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this letter and the terms of the original submittal but I do not think there is any difference between that and the statements we have been working on.

THE CHAIRMAN: But you have not made a submission to the Board based on that letter. I have forgotten the details of the letter.

MR. DONELLAN: I went over it carefully, going over it the first time but I recall the letter. It covered depreciation over a ten year basis and the producers had raised the condition as in this letter as to the consent of the producers and I think in the file there is a copy of Mr. McDonald's letter to the Board and the assumption was that matter had been agreed upon between the Board and the purchasers directly.

MR. HARVIE: Dealt with.

THE CHAIRMAN: In other words the condition was not complied with and therefore the letter goes out the window.

MR. HARVIE: Well Mr. Chairman, you know we were handicapped by dealing with two or three different people, Dr. Boomer and in your absence Mr. Frawley.

THE CHAIRMAN: Perhaps you will remember that I met you fortuitously in the hotel and you asked me if the Board had come to any decision. As a matter of fact we had and I was in Calgary for the purpose of drafting with Mr. Trammell the Order that would be required to put our decision into effect and told you then what we thought was to be the order and you will remember further that you became very annoyed and that in a few minutes I was very much annoyed also.

MR. HARVIE: Yes.

THE CHAIRMAN: And we met you and Mr. Elmes in Mr. McCutchin's room late that night or the next night and we were

Argument by Mr. Harvie.

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there until 2 o'clock in the morning.

MR. HARVIE: And Mr. Elmes at that time favoured our going ahead with our submission.

THE CHAIRMAN: Yes, and you will also remember he did not know enough about the details to give us any advice. That is why I 'phoned to Dr. Boomer. Now let us go on. I did know enough about it to know your scheme was not an economic one unless - that is it was not economic in the sense that gas could be produced at a price which the Calgary people should be asked to pay and therefore there had to be a sharing between your Company and the producers and I outlined those things in general terms because I did not know enough to discuss it in detail.

MR. HARVIE: I do not wish to make any suggestions at all, Mr. Chairman, that we are going to ask you to be bound by the contents of this letter. I am reading the letter to show those that are interested or not familiar with these negotiations to show what I think is the true situation at the 3rd of June, whether they changed later or not.

THE CHAIRMAN: Very true, but Mr. McDonald's letter put an end to it. Mr. Harvie, you have a copy of that letter.

MR. HARVIE: That is not my recollection. You said even in view of that letter there was nothing that you thought was raised by the producers for submitting that our conditions stopped you from going ahead and granting the Order.

THE CHAIRMAN: I was not within a thousand miles of the Province of Alberta when the Order was made. I left on the night of the 3rd. I beg your pardon, the 4th of June.

MR. HARVIE: Dr. Boomer was here within a lapse of a week or so in which time we dealt with Mr. Frawley.

Argument by Mr. Harvie.

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THE CHAIRMAN: But the fact is that the conditions mentioned in the letter, two things, you were to get your clients' instructions and as far as I know if you got them they were not communicated to the Board, and you were to get the consent of the producers and you did not get that. Now what is the use of talking about the letter. These were conditions imposed by the Board and reluctantly agreed to be submitted by you to your principals.

MR. HARVIE: Now Mr. Chairman, I would like to read your own comments in not getting my clients' instructions. You said here that I 'phoned you and told you what my clients' instructions were.

THE CHAIRMAN: They were not the final instructions, Mr. Harvie.

MR. HARVIE: Well I would like to have the letter read and if there is anything disagreeable we might air it, but to me it is the basis we have been proceeding on. The basis outlined here with the two or three exceptions that I am going to read and the matter of negotiations....

THE CHAIRMAN: You just said a moment ago that you did not think the Board is bound by that letter.

MR. HARVIE: I said, Mr. Chairman, I was not quoting the letter with the idea of asking the Board to be bound by it and in fact there are a good many suggestions here that in our submission are not advantageous to us, but we have not followed this letter in its final analysis. We have followed what we thought, after all the evidence, was a proper submission. Now I say this, that if we took the stand that we must live up to this letter then you would be justified in holding us to it and so on.

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Argument by Mr. Harvie.

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THE CHAIRMAN: And I may do worse, Mr. Harvie. I may do worse than the letter.

MR. HARVIE: Oh no doubt about it, or you may do better.

THE CHAIRMAN: But I say this to you Mr. Harvie, if you had specifically complied with the terms of that letter the Board's order was drafted and only had to be typed and signed by Dr. Boomer. Why was that not done ?

MR. HARVIE: I do not know.

THE CHAIRMAN: Did I mention to you the Order had been drafted and sent to Dr. Boomer ?

MR. HARVIE: Yes. I do not know that any change has been made in the Order as far as I know there was nothing changed. I do not know what Order was got.

THE CHAIRMAN: It was drafted and you were ordered to put in the installations you were asking for and it was hedged in with other conditions. I say this is the draft that was sent to Dr. Boomer.

MR. HARVIE: Did I see that ?

THE CHAIRMAN: No, but if you had told him that you had your clients instructions and that the two conditions were complied with why would he issue an order completely contrary to the terms of the letter ?

MR. HARVIE: Now Mr. Chairman, I say that I had my clients' instructions. That I told the Board what those instructions were and that we thought the Board acted on that basis and I would like to either give it in my own words or I think inasmuch as this is written and it was fresh at the time there were certain things I disagree with. I think they are not actually necessary but it was not the letter on which I acted and got instructions and I think this letter outlines my instructions on several of those points and with your

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permission for what it is worth to show the basis prevailing at least on the 3rd of June may I proceed to read the letter.

MR. BLANCHARD: Mr. Chairman, I do not know what purpose there may be in reading the letter. It seems to me that anything that may have been said cannot be binding upon the Board in any respect and all the matters that arrive or flow from the effects of Order No. 1 that may result in certain rate bases being fixed, rates and allocations of costs and so on, cannot be determined by the Board without a Hearing at which all parties interested must be heard.

(Go to Page 7465)

H-2-1 11.15 a.m.

Argument by Mr. Harvie.

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THE CHAIRMAN: Yes.

MR. BLANCHARD: Now then, what purpose is there in putting in a letter unless my learned friend says, "That binds this Board and you must now make a judgment that conforms to the terms of that letter." Unless that is the attitude taken by Mr. Harvie, I think the discussion might well end now.

MR. HARVIE: Now, Mr. Chairman, in reply I might say if that is the case, what was the purport of all of the Counsel referring to our original submission and suggesting the $7\frac{3}{4}$ cents. There is certainly nothing in the Board Order to that effect. And I say this is just to rebut that statement.

THE CHAIRMAN: No, but when the Board writes a decision, its decision will be based upon your own representations, the demands made by Mr. McDonald on behalf of the producers, the evidence given by Mr. Reeves on behalf of the producers, coupled with the clear intimation made by the Board that where there were a great deal of beneficiaries, each beneficiary has to stand the share of the cost in accordance with the benefits received. But to ask the people of Calgary to pay for gas at 13 or 14 cents when the Madison "A" Plan could have done the whole thing within, clearly on the evidence, of $7\frac{3}{4}$ cents, then we must take the basis of your application with regard to that. You had your opportunity in the letter for a better deal for your own Company if you had wanted to take it. And then, as Mr. Blanchard says, that matter can be discussed at a hearing, but the reason that that was not discussed at any hearing was because it never became a completed bargain.

MR. HARVIE: Well, I think it was not discussed as Mr. Blanchard well points out, as we all knew that the final order might not be in accord with the early directions and so on. But what I do say is, it does outline the changes

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that you insisted on going into our original submission. Nobody is suggesting that Royalite or Madison is doing that to their original submission.

THE CHAIRMAN: I do not want to be unfair to you, but you remember it was either Mr. Frawley or Dr. Boomer to whom you made your communication which resulted in the Order No. 1, the Order that gave you the right to proceed with the system.

MR. HARVIE: That is just a direction to proceed with the installations, but I remember that Order well.

THE CHAIRMAN: Of course, all I know is, that when I came back certain things had happened and certain other things had not happened.

MR. HARVIE: Well, if that is the case I will say this, that I would like to read this letter to show the situation as outlined at that time, whether it was lived up to later or not, to rebut the suggestion that we went ahead on the $7\frac{3}{4}$ cent basis. If you say that I should not read it then I will proceed to the next matter.

THE CHAIRMAN: It is not going to go into the record. If you wish to show it to other Counsel, it is quite all right. I do not mind a particle.

MR. STEER: Mr. Chairman, I have a recollection that in May of 1944, when I stated the position of my client with respect to this proposal, I stated that so long as the $7\frac{3}{4}$ cent price was not disturbed, we were not concerned whether the Board did or did not permit the British American Company to go ahead and make its installations, and I am quite satisfied, Sir, that in view of that statement that if the Board were going to make an Order where that condition was not being complied with, that we would have had some notice of it,, and would have had an opportunity to be heard, and I should

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like to point this out too, Sir, that not only in May 1944 but during the course of more recent months when Mr. Donellan was in the box from time to time the question of the excess of these construction costs over the estimates were referred to and not one suggestion was made at that time to this matter, as a matter of fact, that is now put forward, and upon which we all, who are interested in this Hearing, should have had a right to cross-examine.

THE CHAIRMAN: Well, the letter is not going on the record.

MR. HARVIE: There are a couple of other points, Mr. Chairman, I want to bring out.

THE CHAIRMAN: I think we will adjourn for ten minutes, Mr. Harvie.

MR. HARVIE: All right.

(A short adjournment was then taken).

THE CHAIRMAN: All right, Mr. Harvie.

MR. HARVIE: Mr. Chairman, I would like to deal with the matter of the inclusion or exclusion of the high pressure gas gathering lines. You remember Order No. 1 was issued on the 19th of June, 1944.

THE CHAIRMAN: What is the date of it? The No. 1?

MR. HARVIE: The 19th of June. And our Exhibit 16 in these proceedings. And it in effect directed the British American Company to make installations and to give effect to this project. And all I wish to mention there is that that Order did include directions to gather gas and to instal high pressure, did include directions to gather gas and to instal two high pressure wells.

Now, it has been suggested that the

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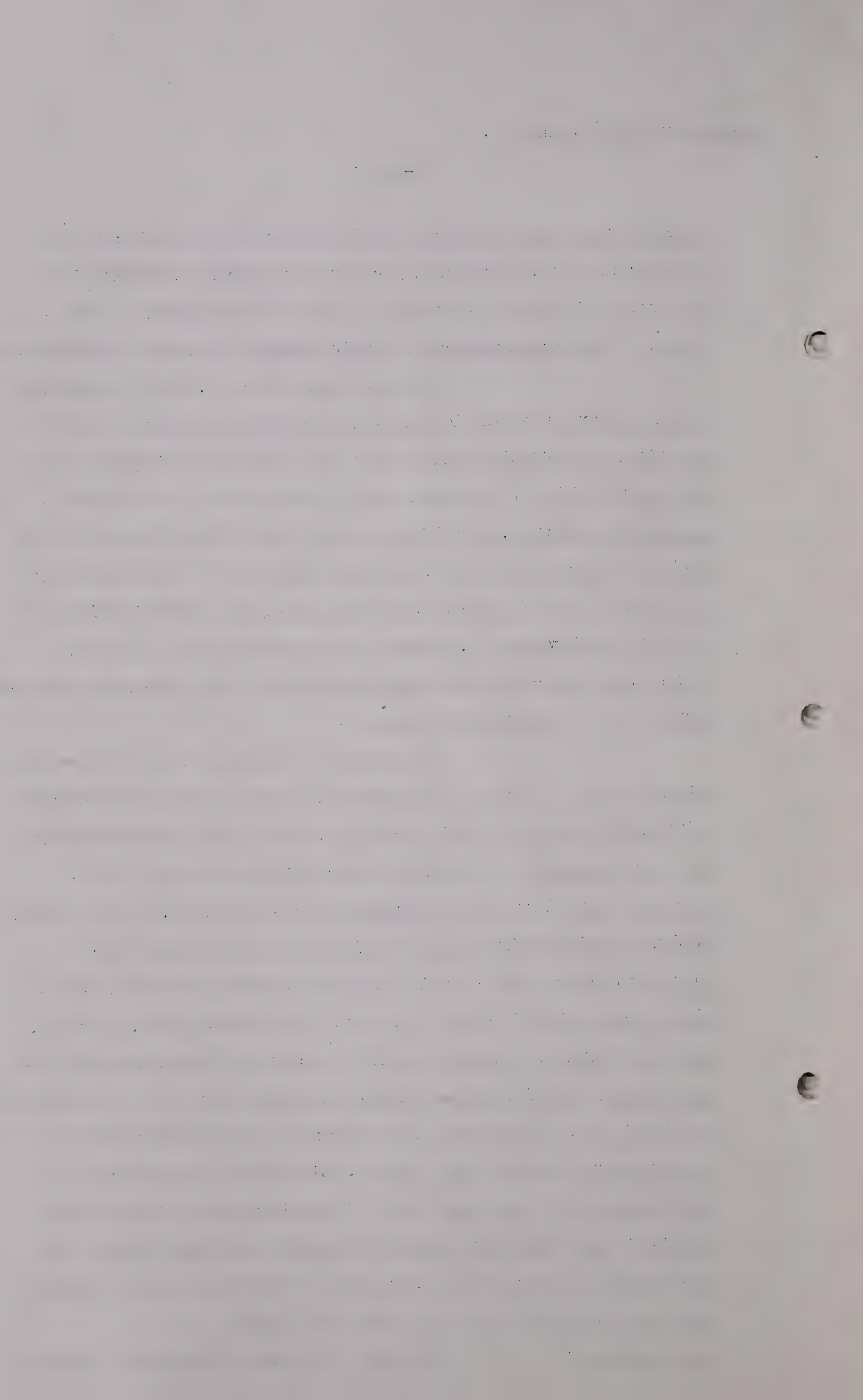
high pressure gas gathering lines should not be included in the rate base, and that my client is in effect attempting to salvage his position on these lines at the expense of the public. There are various obvious answers to these suggestions.

In the first place, the low compressor station and the new low pressure gas gathering lines would be entirely ineffectual without the use of the high pressure gas gathering lines. They are using a portion of the low gas gathering system, and if they had not been in existence at the time the Order was made, they would have had to be built as a very substantial portion, and I may say that portion is 31% of the total investment, of these high pressure gas gathering lines, are used for conveying gas from the low pressure compressor station to the absorption plant.

If you will remember, the evidence was that the high pressure gas gathering system before abandonment did include the pipe line running, we will say, southwesterly from the plant in the general direction of where our No. 1 or where our low pressure compressor station is, and the whole scheme at that time was gathering high pressure gas from the south end of the field, the whole scheme was that those lines could be given full use to. The scheme did, in fact, use that line to transport all the compressed gas from the low compressor station to the absorption plant plus the high pressure wells from that same area, upstream the compressor plant and downstream the absorption plant. So that an analysis as of that date would show that 31% of the investment in the high pressure gas gathering lines throughout the whole field was immediately incorporated into part of the low pressure system and used in part jointly one with the other.

THE CHAIRMAN:

You take the item of expense there to



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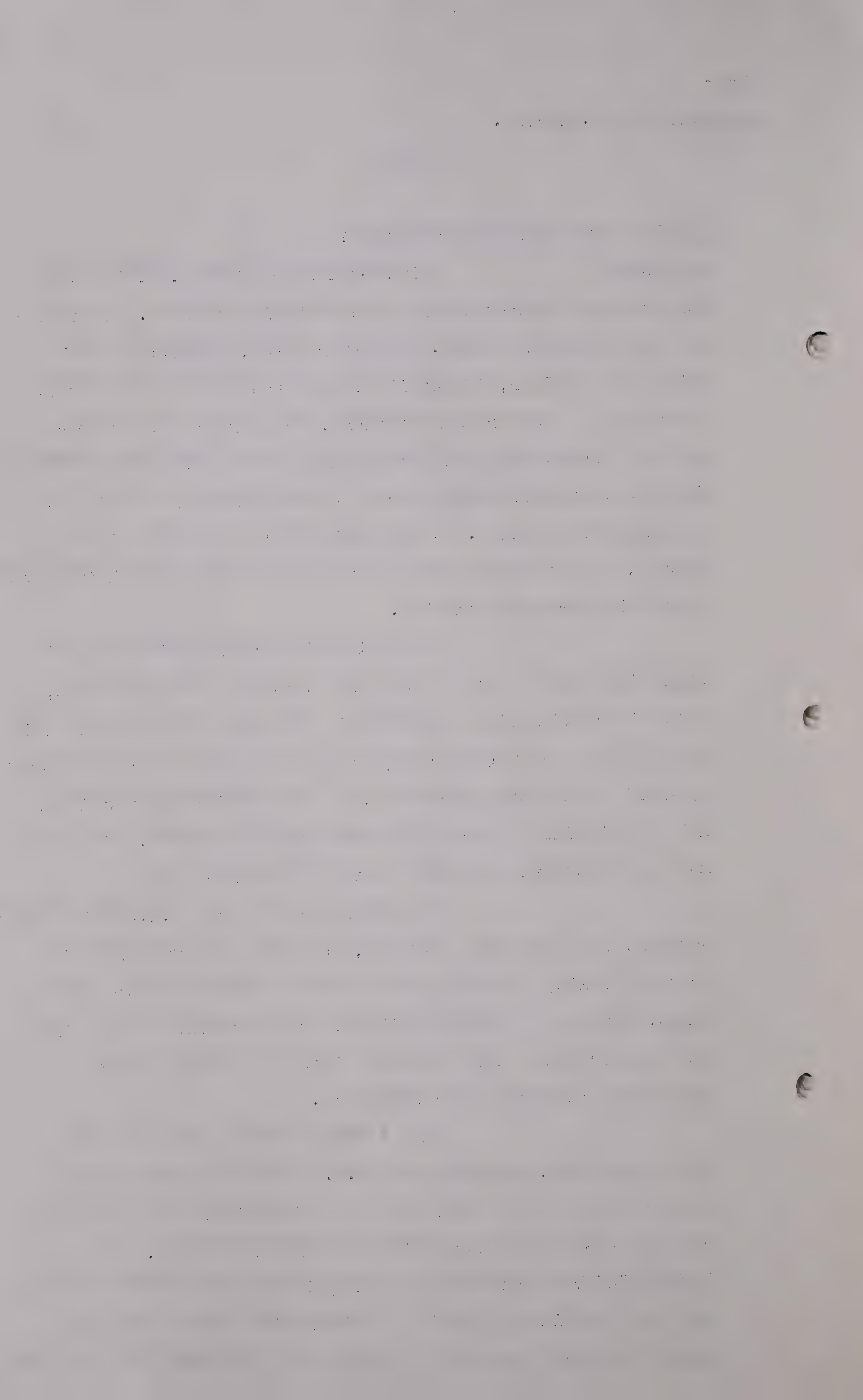
apply to the compressor station?

MR. HARVIE: No, exclusive of that. This is only the gathering lines and not the gathering station. It is the old high pressure lines. In other words, to make the point a little more clear, if possible, from the date of the opening of the low compressor stations, from which we gathered our low pressure gas, we always used part of that high pressure line to transport the gas from the low pressure station to the absorption plant. So that right from the date it was opened, it was used to the extent of 31% of the total investment in the low pressure service.

You will also realize that from the operations in that end of the field, as well as elsewhere, there is continually a decrease in the high pressure gas which goes into the low pressure system, so that day by day and month by month it is being increased, so that ultimately possibly, all of it will be part of the low pressure system. That is a matter of mechanics and will have to be worked out.

The Board ordered the B.A. Public Utility Company, if I may call it that, to gather gas from the high pressure wells, and to do that it was necessary to use these lines, which are a public utility, and we submit that it is only proper that a rate base be fixed and pay the Utility Company to compensate for their use.

And I would like to point out in that connection, supposing the B.A. project had never gone ahead and been faced today with the situation, that would have been the case if Madison "A" Plan had been adopted. The Madison "A" Plan contemplated using those high pressure lines for the gathering of gas to the absorption plant, and that would have been the only gas that would have come from that end



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of the field. Now, it is true that the Board might make some distribution of costs where the absorption plant pays all the costs of gathering, but I would say it would be on the basis of some compensation downstream the absorption plant for the gathering of the gas, and collecting it at that point.

THE CHAIRMAN: I think your biggest difficulty, Mr. Harvie,

MR. HARVIE: I beg your pardon?

THE CHAIRMAN: I think your most difficult position is that low pressure system. The Weymouth Plan, without any doubt, contemplated the picking up of all gas that was being flared, and that involved picking up the gas that was then being flared at your absorption plant.

MR. HARVIE: Yes.

THE CHAIRMAN: And that involved a compressor station and the residue gas line.

MR. HARGIE: It might have been dealt with and quite likely would have been the same way as the G.O.P. suction line to No. 3.

THE CHAIRMAN: Quite right.

MR. HARVIE: I do not know. I am not making any point of that, but I do say that Madison's "A" scheme did incorporate the use of our high pressure lines.

As to the economics, and some other features, there is some rather distinct information that might be helpful. I say this, that if the British American assumed the whole cost, both capital and operating expenses in connection with the operation of the high pressure lines, and the balance of the expenses to the system was borne by the City and the public, and I am leaving out my next statement here because I

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want to refer to it later, my client would be paying substantially less towards the operation of the whole system than it is proposed, taking into account the allocation of costs as outlined in my argument. Taking the costs of gathering throughout the eight and a half years of operation of the absorption plant up to the 1st of January, 1945, which is the date in effect that the Public utility went into operation, and that cost averaged for gas gathering, including capital and operating costs of .297 cents per thousand cubic feet. And that what it was costing the B.A. Absorption Plant to gather its gas.

THE CHAIRMAN: Is that shown in any of your exhibits?
Mr. Harvie?

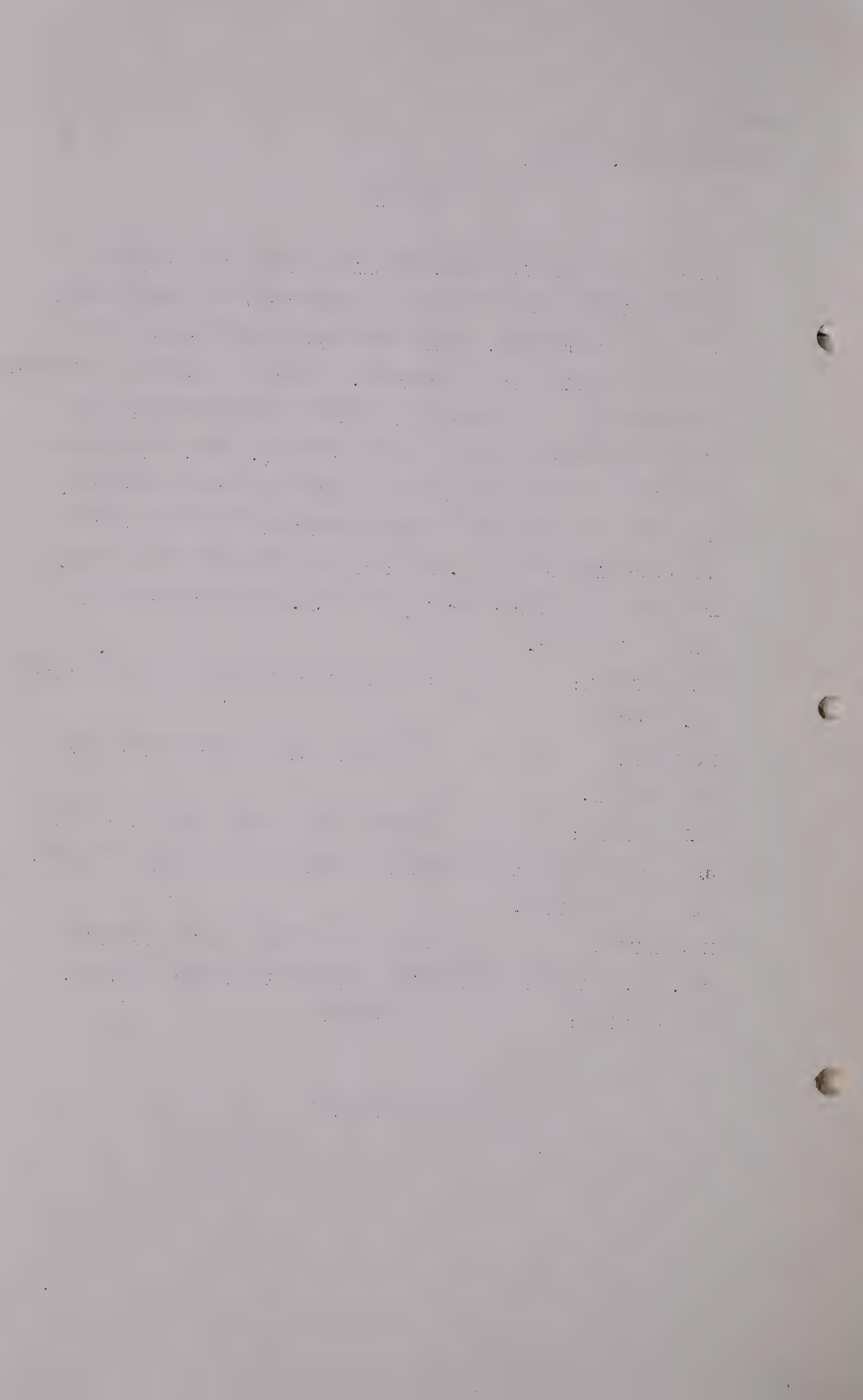
M. HARVIE: I think it can be abstracted from
Exhibit 161.

THE CHAIRMAN: I would like to get those references
so that when I come to analyze them I would not have to hunt
all over for them.

MR. HARVIE: For your guidance I can file with
you, Mr. Chairman, our working papers with regard to that.

THE CHAIRMAN: All right.

(Go to page 7472)



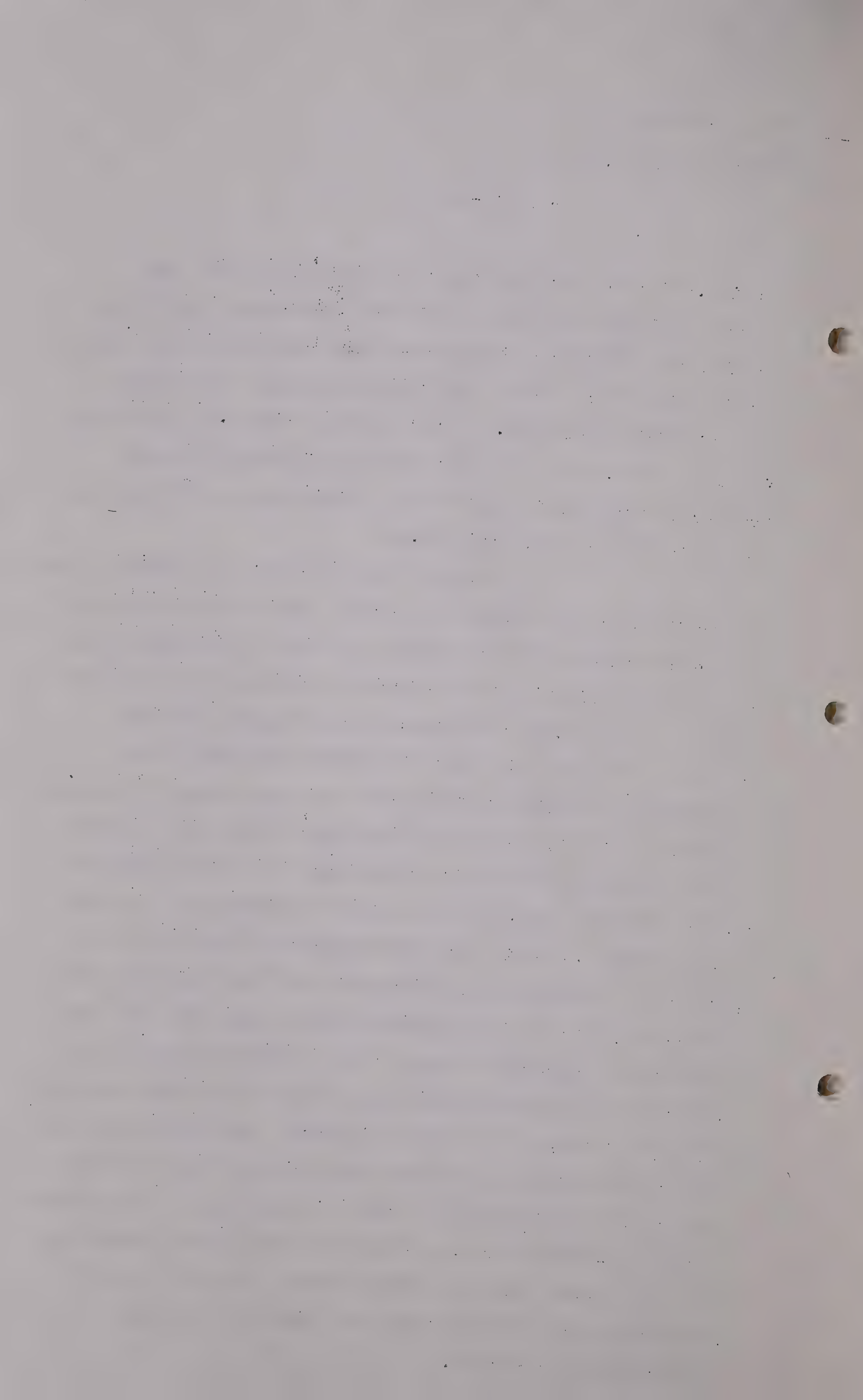
T-2-1 11.40 A.M.

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That is .297 cents per thousand cubic feet of wet gas gathered while on the basis of our submission, under which you will remember we adopted what we call the Zinder formula of allocation of costs, the absorption plant under that suggestion has a cost of .712 cents per thousand cubic feet of gas gathered. That is approximately 2-1/3 times as much per thousand cubic feet and there again I will give you our working papers, Mr. Chairman.

There is another point, Mr. Chairman, and that is there has been a suggestion, and a very definite one by some counsel, that my clients should be penalized in some way for underestimating the cost of construction of the new part of the system. The Company, as we have previously stated, does not deny the errors that were made in the estimates and readily admits that they have created a problem. However, I think it should be pointed out that no one has even suggested that there is authority for the proposition that the Board should, as a factor in determining the value of an asset, take into consideration the fact that the cost of the same was underestimated and give effect to it on that ground. I am not suggesting that there have not been submissions made all through of the possibility that if the true figures had been known there would be no Order made, but that is, I think, on a different basis. We submit that there is no justification in determining the rate base on which our client is entitled to a rate of return not to give effect to the over-expenditures. I think in our original submission we did intimate that if anything was to be done in that connection that there was another place to do it more effectively and properly.



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According to Mr. Donellan's evidence, the amount under-estimated was approximately \$183,000 (Volume 42,) page 3260, of which approximately 50% was due to the difficulty in obtaining material. It was a fact that it was necessary to buy such pipe, valves and fittings as were from time to time available, even if they were of different sizes than we included or should have been included in the original estimate and in some cases we had to bring those pipes and fittings and other items long distances at considerable expense because we could not get locally or otherwise the proper equipment. As the size of these could not be decreased, which would have meant decreasing the throughput of our system, this meant that all changes necessarily had the effect of being larger and thereby increasing the cost. I submit, Mr. Chairman, that was a situation that should be given weight to when you are considering these items that we were faced with a situation that was of no person's making, just a war situation.

You will also recall, Mr. Chairman, that there was considerable suggestion, we will say, by members of the Board, by ourselves and all producers as to the advisability of speed at that time and I think maybe. . . .

THE CHAIRMAN: I do not think I ever did, Mr. Harvie.

MR. HARVIE: I think you will realize Dr. Boomer did.

THE CHAIRMAN: I agree that he did, but I objected right from the beginning, to rushing into the Hearing the way we did. I think we went at it the wrong way but I was overruled by other people.

MR. HARVIE: In that connection I am just going to

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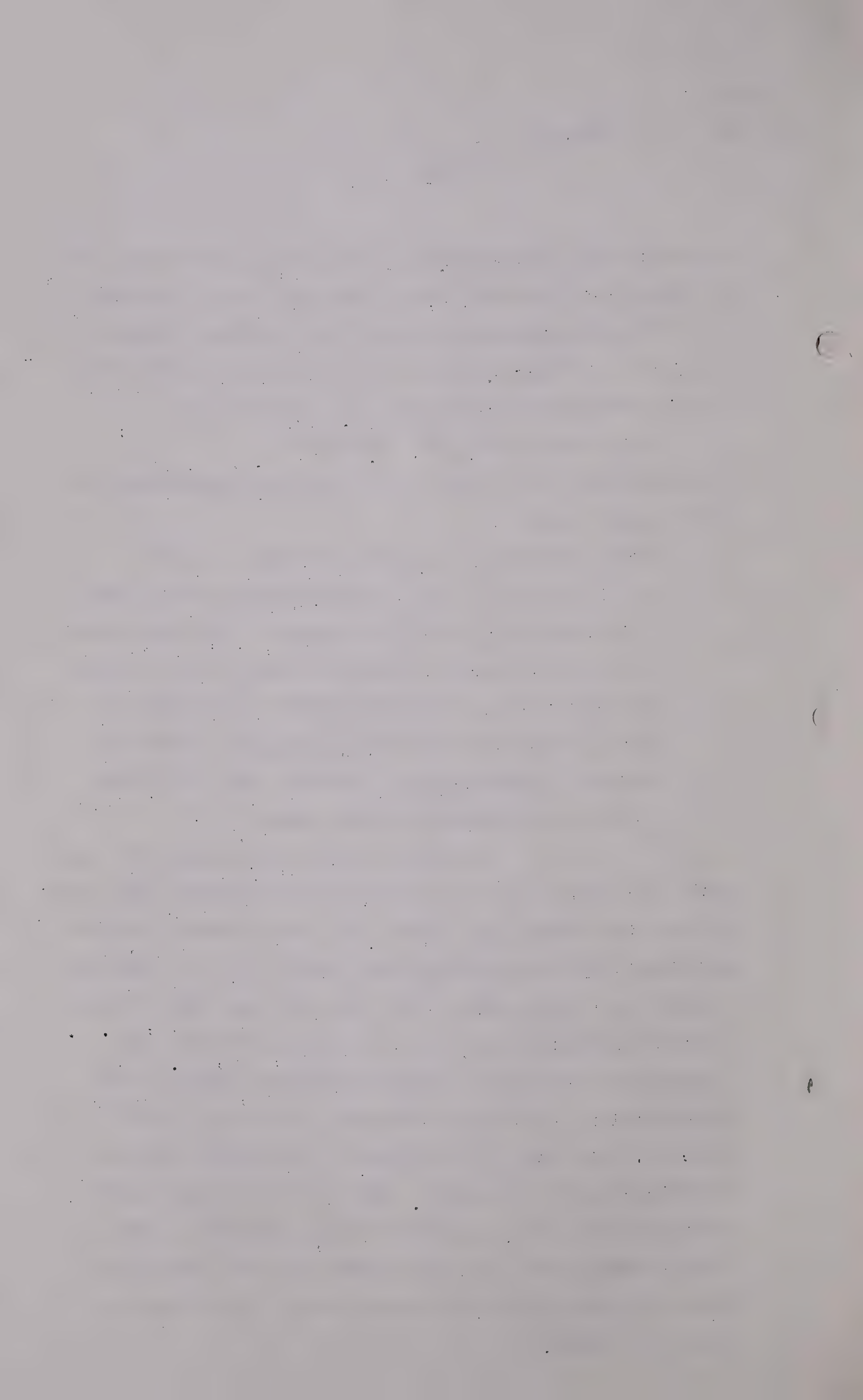
quote a comment of Mr. McDonald which appears in Volume 1 of the Hearing on May 9th, 1944 at page 14, and the question I think was being discussed then as to the matter of some adjournment that Mr. Steer had applied for in order to allow him to get some witnesses here. Mr. McDonald said:

"Before you adjourn, Mr. Chairman. . . ."

and he was referring there to the noon-hour adjournment and not a longer one -

"Before you adjourn, I would just like to point out the people who will suffer because of any delay in the carrying out of the Order, are those Producers not now connected to the gas line and if there should be arising out of those two weeks' adjournment in getting materials required to build the connecting lines and installations necessary, then this loss of gas would ensue for another year."

Now I would like to just show, if I may, what that means to the whole scheme by going ahead that year rather than waiting till later. The gross revenue received by British American Gas Utilities Company from the Madison Company for the gas sold in the year 1945 was \$176,000.00. I refer to Exhibit 164. Of this amount, \$88,000.00 was expended for the actual costs of operation, exclusive of amortization or return on investment and the balance of \$88,000.00 is held by the Company to be disposed of under the directions of the Board. That represents the 2 cents that is in the pool. In other words, nearly 50% of the excess expenditures over the estimate has been recovered during the year 1945 from gas which would have otherwise have been flared.



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There has been no suggestion from anyone that the actual construction costs were excessive or imprudently made and again I take note of the engineering hazard item of \$10,000.00. But aside from that I think that is a correct statement and no one can say that the plant has failed in any particular to perform the purposes for which it was erected. We therefore submit that the actual expenditures made should be included in the rate base for the installations.

Then there is a further criticism, Mr. Chairman, in connection with just what would have or might have happened in the event the true costs were known or the actual costs were known at the time you were considering the granting of the Order as against those on which you acted, which were our estimates and which are admittedly low. It has been suggested by the Producers that if the Board or the Producers had known what the cost would have been the construction would not have been authorized as the construction would not have been economic. I would like to analyze this contention. In order to illustrate the true benefit occasioned by the installations made under the Act and to allow a better appreciation of what this means we have made an effort to convert these benefits to a dollar and cents basis. For this purpose we have taken the value of gas at the well-head at 2 cents per thousand cubic feet, that is the dry content at the well. We have also given a value of $3\frac{1}{4}$ cents per thousand cubic feet ^{to} the liquid content of the gas that is recovered in the absorption operation. To arrive at that figure, Mr. Chairman, what we did was we took the total income for the first four months of 1946 and divided it by the throughput and the resulting figure of which we will be pleased to file

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the working figures amounts to the equivalent of $3\frac{1}{4}$ cents on the average per thousand cubic feet for the wet content extracted in the absorption plant on the basis of the 45 pound product. We have given no value to the liquid content recovered at the separator or the various well-heads for the purpose of our illustration. We propose to treat that separator product as a crude well operation of the operators. In other words, we are just going to ignore that in these figures.

We only propose to submit these figures as they are applicable to our sphere of operation, that is the B.A. area.

We estimate the wet gas to be produced on the basis of ^{the} utilities' operation as from January 1st, 1945 at 64 billion cubic feet; and estimate the wet gas that would have been produced without the B.A. Utilities' installations, that is under the Madison A Plan, at 13 billion cubic feet, which gives an increase through the installation of the B.A. Utilities' system of 51 billion cubic feet.

The total estimated income from wet gas produced on the basis of the B.A. Utilities installations is, we estimate that there should be 48.2 billion cubic feet pass through the absorption plant in 10 years from the 1st of January, 1945, at a valuation of $3\frac{1}{4}$ cents, which amounts to \$1,566,000.00. In these figures I quote reference can be made in Exhibit 185.

Secondly, that 25.8 billion cubic feet of dry gas sold at 2 cents per thousand at the well-head over the next 10 years from the B.A. area, which amounts to \$516,000.00 or a total of \$2,082,000.00.

The total estimated income from wet gas

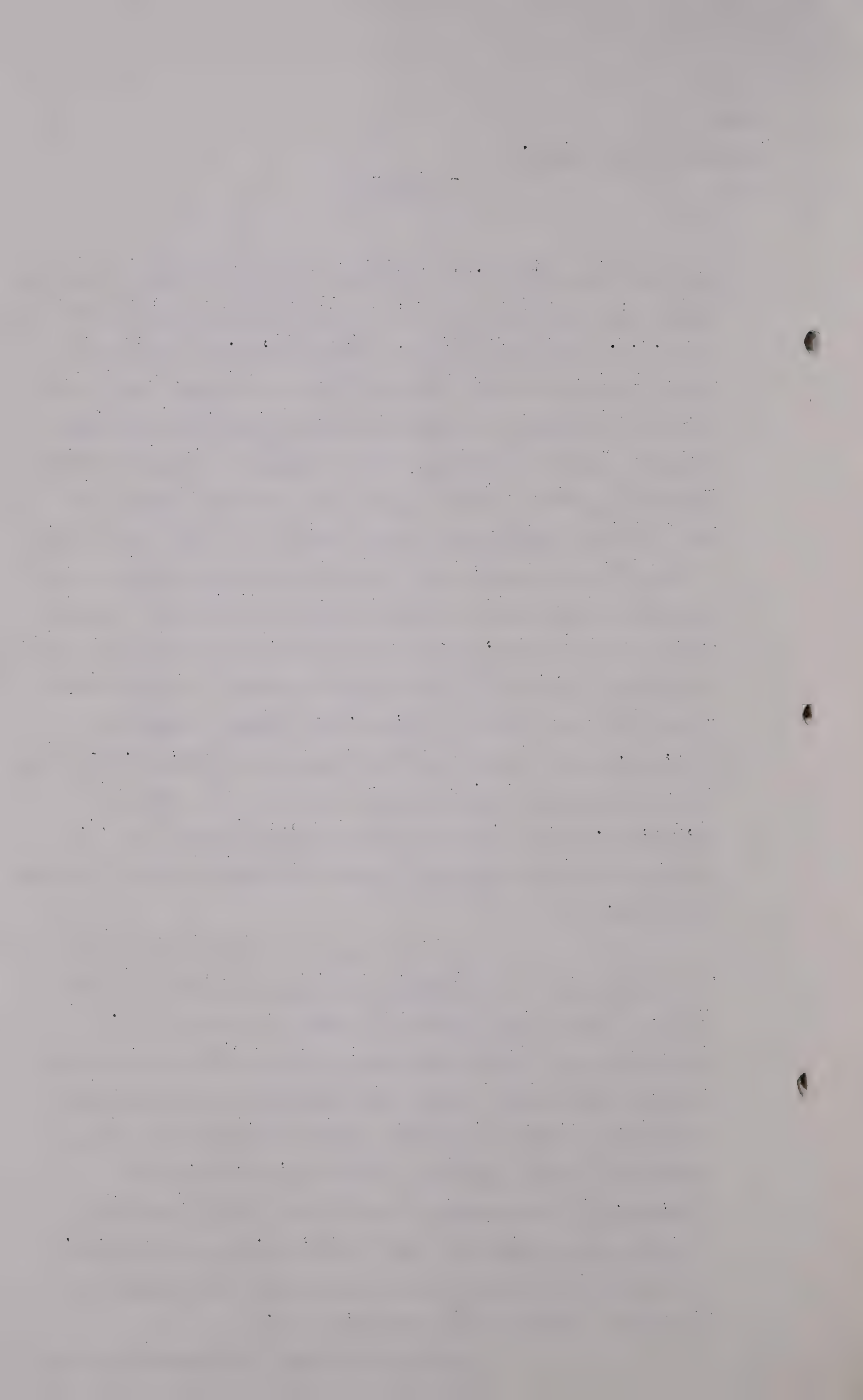
Argument by Mr. Harvie.

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on the basis of the B.A. Utilities system not being installed would be: Absorption product, 13 billion cubic feet at $3\frac{1}{4}$ cents per m.c.f. as from January 1, 1945, \$422,00.00 and dry gas sold, 11 billion cubic feet of which we estimate, and it is only an estimate as we would not know just what might have been the case in the event that the Madison A was in effect rather than this, but we suggest that we have erred if at all in being generous on the amount that is sold at 2 cents, rather than otherwise, the 11 billion feet we estimate would be sold on that basis and we say that 8 billion at 2 cents would amount to \$160,000.00 and the remaining 3 billion, which would be purchased by Royalite on the basis of repressuring costs at $\frac{1}{2}$ cent would be \$15,000.00, making a total of \$175,000.00 or a total for the Producers of \$597,000.00. This shows an increase in income for our end of the field of \$1,485,000.00 as a result of the installation of the B.A. system as against what the income would be if it had not been installed.

The above figures represent the values of the product to the Producer and/or manufacturers in the field. That is the Producer and the absorption plant. It should be noted that under existing contracts the producer receives 20% of the income from the absorption plant which would be, recovered under the British American Utilities absorption plant operations, 20% of \$1,566,000.00 or \$313,200.00; and recovered without the British American Utilities gas operation, 20% of \$422,000.00 or \$84,400.00. In other words the Producers would receive an increase on absorption product alone of \$228,800.00.

Looking at it from the standpoint of the



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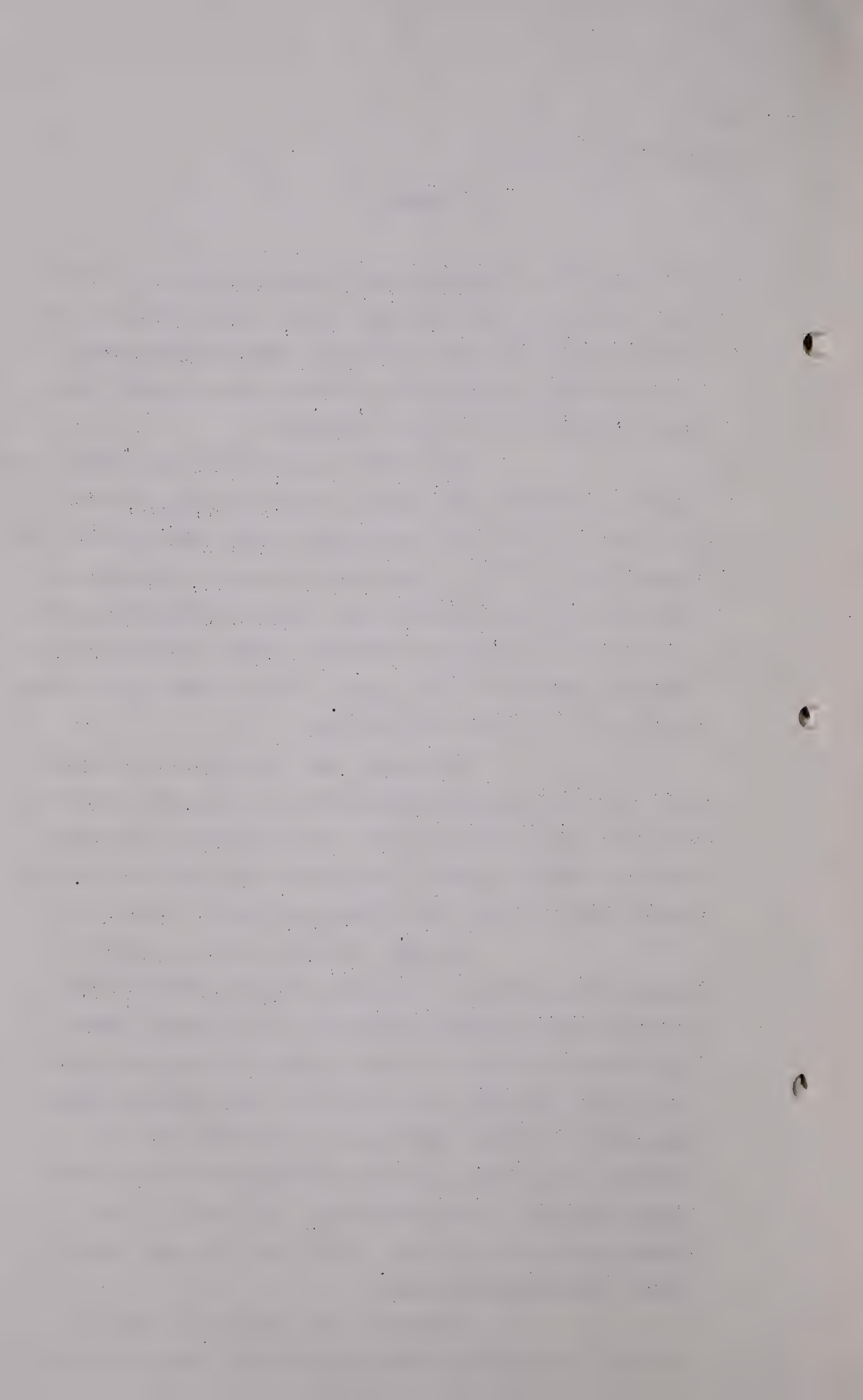
producer, it is estimated that he will receive (a) on the basis of the new installations income from the sale of gas at 2 cents per thousand cubic feet, \$516,000 and income from the absorption product at $3\frac{1}{2}$ cents per thousand cubic feet, \$313,200 or a total of \$829,200.

Then on the basis of the new installations not being installed the figures would be: income from the sales of gas at 2 cents per thousand cubic feet, \$175,000 and income from the sale of absorption product at $3\frac{1}{2}$ cents per thousand cubic feet, \$84,400 or a total of \$259,400, making a difference of \$569,800 additional moneys received by the Producer over the 10 year period. That is more than 3 times as much as if it was not installed.

We suggest that in view of this result can it be said that the installation of the British American plan was not justified or that the producers or the Board would not have approved of this scheme even at the increased cost if they had had these facts and figures before them.

Then Mr. Chairman, there is just a thought that we wonder if in fact, if the critics of the so-called over-expenditures would be satisfied to permit the Company to assume all the capital and operating costs and pay the producers what they would have received under the Madison A scheme and then let my clients take the additional benefits. In other words that would in effect place them back at where they might have been if this scheme had not been put into effect and they were operating under the Madison A scheme.

In addition to the direct financial benefits the producer received through the installation of



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this system, the producer received through the installation of this system through the increase in quantity of this gas available for market, he also received many important indirect benefits, such as - (a) materially extending the economic life of his oil production with a corresponding increase in the amount produced and secondly, and perhaps more important, it gives him the means to produce his oil in strict conformity with both the letter and spirit of the Act, that is, eliminates the wasting of residue gas. It is impossible to even suggest

what the Producers' position would be under the Act if no means had been provided for him to dispose of his residue gas, but it is apparent that if the Act was strictly enforced it would mean restricting from day to day oil and gas production from the wells to a point where the residue gas could be marketed currently. Under such an operation, it might well be questioned as to whether such a type of operation would give the producer sufficient returns to allow him to carry on.

I realize there, Mr. Chairman, that there is considerable leniency in respect to the conservation and the wasting of gas and it is only, it is having in mind what will be done in the future that you must read that statement.

Thirdly, it provides a means whereby the South End Producers obtain their full share of all markets available to Turner Valley gas, whereas under the Madison A Plan they would only receive a very limited share of the market and, without either plan, were not in a position to benefit by the City of Calgary or any other market, except such little as there might be for local operations in their area of the field.

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In connection with the possibility of them getting a new market for the South End, I think it should be pointed out that it would have been difficult for them to obtain any market for their residue gas in view of their lack of sufficient reserves, which were being rapidly depleted and thereby would not justify any major capital expenditure that would be required to find other markets.

THE CHAIRMAN: We had better adjourn now, Mr. Harvie.

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Argument by Mr. Harvie.

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Then the public generally benefits through:

Firstly: the additional products it receives from its own natural resources;

Secondly: the supplying of much needed products for war industries where they were difficult to obtain elsewhere. That statement of course must be antedated to a period that it is applicable to; and,

Thirdly: very substantial additional taxes will be collected by the Dominion, Province, Cities and Municipalities affected; and

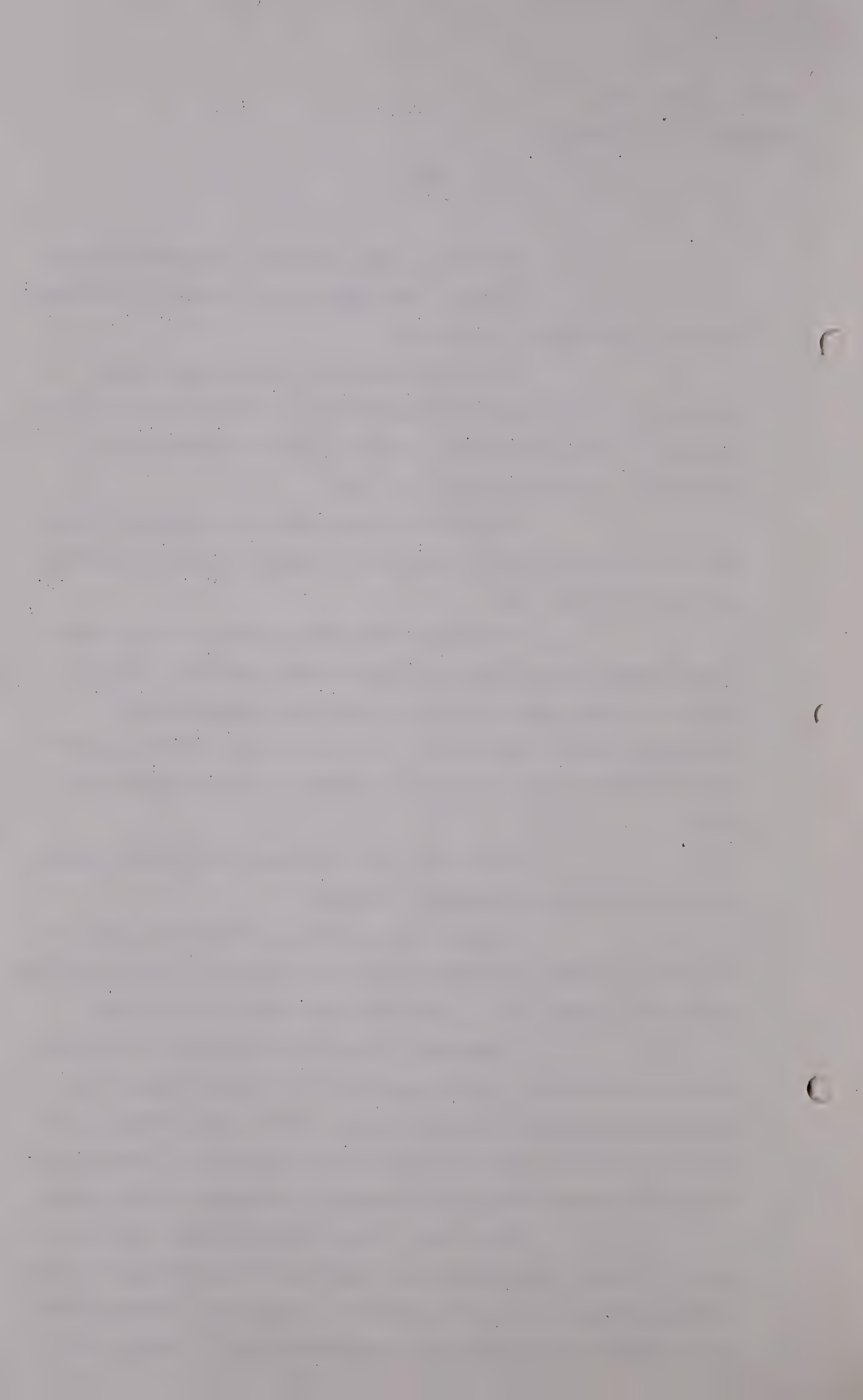
Fourthly: the direct benefits to the Province through the collection of additional royalties it will receive through additional production and markets, which additional amounts will be net to the Province, as it has not been suggested that it should be saddled with any additional cost.

Then the City of Calgary, and other Municipalities affected, we suggest, benefit:

Firstly: by securing a reserve to allow continuing the supply to present domestic, commercial and industrial consumers, as well as new ones from time to time; and,

Secondly: as Calgary is the main commercial centre of the Turner Valley operation it benefits directly through the increase and maintenance of the Turner Valley payrolls in the field, and the payrolls and accounts of the supply houses and others resident in Calgary, dependant on the field.

And there I would like to point out that I am not speaking specifically in regard to the additional reserves of the South end but in the field as a whole and I think if you will remember Mr. Weymouth in his Exhibit 131, I think it is,



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estimated, yes, in Exhibit 31, estimated that his scheme, if put into effect, would increase the useful life of Turner Valley by some twelve and a half years.

Then there is the Canadian Western Natural Gas, Light, Heat and Power Company Limited.

I have already referred to some of the benefits received by this Company and at the moment only propose to summarize them as follows:

That looking at the position of the Company in the early 1920's, both financially and as far as reserves connected with the system are concerned, it will be noted that it was not, that is that the Company was not in a happy or enviable position.

And I refer possibly to Exhibit 160, which you will remember, Mr. Chairman, is a series of contracts between the Imperial Oil Refinery Limited and the Company, that is now the Calgary Gas Company, in which some financial arrangements were made to allow the Company to borrow money either from or on the credit of the Imperial Oil Refinery, to install additional capacity from Turner Valley to Calgary to allow of the Imperial Oil Refinery obtaining a volume of a minimum of one billion to an actual of two billion feet a year for their own use on the basis of what has been referred to as the two cent or the five cent transportation rate.

I suggest that, based solely on the development of natural gas in Turner Valley, this Company, the Canadian Western Natural Gas, Light, Heat and Power Company Limited, without expense to itself, other than such items as have from time to time been allowed in its operating expenses, progressed from a Company in difficulties to where it is at this time in a strong,

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main results of the paper.

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Argument by Mr. Harvie.

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healthy position financially and, through the installation of the new utilities systems in Turner Valley, one with reserves sufficient for a great many years to come. All this without cost or risk to it and all of which can be attributed, up to the present, to the development of gas in Turner Valley and, or the future to the installation of the new utilities systems in Turner Valley at the expense of other parties, unless some part of that expense is charged by that Company under Order of this Board or the Utilities Board.

It might well be that a large portion of any increase in the net cost, or in the cost of gas that may be necessary can well be borne by this Company on its own behalf, that is exclusive of any part that might be passed on to its customers. The reduction of the hazards of the Gas Company by reason of the substantial increase in the available reserves in Turner Valley might quite possibly be reflected in the rate of return of that Company.

Then Mr. Weymouth, in his Exhibit 31, gives us certain benefits which he says would accrue to the various parties and I do not think I will do more than draw your attention to that.

It is therefore submitted, Mr. Chairman, that consideration might well be given by the Board in the distribution it makes of the costs of all Turner Valley utilities, that consideration might well be given to the benefits, in allocating the costs, in some measure, to the benefits that all these parties receive, and I think you understand most of them.

THE CHAIRMAN: Two o'clock.

(The Hearing was here adjourned to be resumed at 2 P.M.)

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Age Group	Total (%)	Male (%)	Female (%)	Unknown (%)
18-24	100	45	55	100
25-34	100	55	45	100
35-44	100	45	55	100
45-54	100	35	65	100
55-64	100	25	75	100
65+	100	15	85	100

Argument by Mr. Harvie.
Argument by Mr. McDonald.

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2 P. M. SESSION

THE CHAIRMAN: Do you follow, Mr. McDonald ?

MR. McDonald: Yes.

MR. HARVIE: Mr. Chairman, there were just two points that I would like to refer to, one was to file the working sheets and Mr. Donellan has been getting them in order. Will we file them as an Exhibit or will we just hand them to you, Mr. Chairman ?

THE CHAIRMAN: You can just hand them to me and that will be satisfactory.

MR. HARVIE: The other point is, you asked this morning, Mr. Chairman, if I had delivered the letter of the 3rd of June and I find on looking at my records, I received that letter on Monday morning, June 5th, that I forwarded it immediately to Mr. McCutchin with a covering letter, delivered personally, asking him as soon as he had read it to give me any instructions he might have and after he had read it they had considerable conferences that day, I understand, and he was instructed by head office, and from that point on I received instructions from him, both verbally and in writing during the following period in regard to it.

THE CHAIRMAN: Mr. McDonald.

MR. McDONALD: Mr. Chairman, during my presentation the other day, with respect to the matter of uniform price in the field, I felt that it would be of some assistance if I filed a further summary of the unit prices based on the Exhibits which I filed, Exhibits 186, 187 and 189. Those Exhibits contained the operating statements for the various field utilities on the basis of my calculation of 7% return and adjusted rate base.

Argument by Mr. McDonald.

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You will recollect that I did file Exhibit 192, a summary which was made up on the basis that the unit prices for gathering of the Madison gas included both gathering and compression charges.

In respect of gas in the Gas & Oil Refineries area the gathering item included pipe line charges only and transmission included the compression and pipe line charges for the south residue line, including the \$12,000 paid to the British American.

In the same Exhibit, I found on checking it that in respect to the British American the gas gathering charges included low pressure gathering, high pressure gathering and the repressuring charges and the transmission charge included the cost of the transmission line plus that portion of the cost of operation and capital charges of the high pressure compressor which moved the gas through the line.

Now dealing first with Exhibit 192, it is my submission that the transmission charges set out include those charges for building the transmission lines and passing the gas through them, which would in any event have been incurred by the Board, or would have been incurred by Madison, in the event that it had placed in operation its "A" proposal.

Therefore in dealing with this matter of uniform price, as between areas, I submit the Board should determine that only those charges after provision has been made for the Madison "A" proposal or its equivalent, as nearly as may be, on an approximate basis, be taken into account. Then a comparison of prices in giving consideration to the application of uniform price should be made.

Now by way of assistance to the Board, and

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as I undertook during my argument, I have prepared a summary of unit prices based on Exhibits 186, 187 and 189, in which I have included in the item "gathering" the gathering cost in the pipe line, together with the compression cost providing for the transmission of gas at 325 pounds or better, making the gathering item for Madison, G. O. R. and British American the same insofar as compression charges are concerned.

Now I have added to this Exhibit a statement showing the differentials as between the three areas.

Possibly sir I might file this and distribute copies.

DOCUMENT PRODUCED HERE MARKED AS
EXHIBIT 196.

You will note, sir, on the second page, I have set out in the part marked "A" a comparison of gathering costs excluding residue transmission costs and scrubbing costs between the three areas.

I have taken the field average as a mean and then have inserted in the next column the amount that the costs of the Madison area are below the average and then in the "Above average" column, the amount in which the average cost for the G. O. R. and British American areas are above the average, the field average.

I have used the two items in the year 1945 as the year in which we have actual experience and then I have used the composite costs of 1946 and 1947 with the adjustments.

Now the item "B":

I have made the same comparison in which the gathering and transmission costs are looped together and the only costs excluded is that of scrubbing.

There is a new field average and in this case

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Argument by Mr. McDonald.

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also Madison is below average to the extent of .874 cents in 1945 and .941 cents for 1946 to 1948.

Gas & Oil Refineries: the cost is above average in 1945 by 5.153 cents and on the overall picture 3.941 cents.

The British American cost is above average, 2.027 cents in 1945 and 2.671 cents in the three year estimated period.

On the next page I have made a comparison as set out in Exhibit 192 in which the gathering costs have been compared but excluding scrubbing and transmission and in this instance transmission included the high pressure necessary to transmit the gas.

On this basis the Gas & Oil Refineries is below average because you will recollect we used a cost of only one cent, or approximately one cent because the Gas & Oil Refineries had such a small gathering cost.

Madison then becomes charged, or it is above the average, almost one tenth of a cent in 1945 and over one-tenth of a cent in the three year period.

Similarly the British American charge is above average approximately two cents in 1945, pardon me I mean two-tenths of a cent in 1945 and half a cent in 1946-1948.

Now, sir, I do not feel that I can add anything to what I have already stated in argument on this point except that on the evidence before the Board I submit that the Turner Valley field should be considered one production unit and the price for gas be uniform throughout the field, particularly in the event that the Board should deal with the apportionment of costs in respect to the British American low

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Age Group	Total (%)	Female (%)	Male (%)	Unknown (%)
18-24	100	85	15	0
25-34	100	75	25	0
35-44	100	65	35	0
45-54	100	55	45	0
55-64	100	45	55	0
65+	100	15	85	0

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pressure system on a basis which will apportion to the absorption plant and/or the compressor, any appreciable percentage of such costs in excess of those which may be allocated in other parts of the field.

Now in any event, sir, I am going to make this submission, that if any differential should be taken into account by the Board, that differential should be calculated with relation to the field average for those costs, and the reason I suggest that is this, that no doubt there is a benefit accruing to the north end producers in having additional residue reserves and an extended life of the field brought about by these same installations and the scrubbing plant and one way to measure that is to take the field average, which takes into account, partially takes into account at least, the benefits, the benefit of the additional gas handled and if any difference is allowed or made by the Board in price it should not exceed the items I have set out showing the appropriate items on whatever rate base the Board should adopt on the basis I have set out in my submission to Exhibit 196.

In other words, sir, my suggestion is that if the price, - we will take as an example, - if the price at the outlet of the scrubbing plant was ten cents and the cost of delivering the British American gas scrubbed was eight cents, that the entire eight cents should not be deducted from the ten cents, leaving only two cents to the producer in the south end, but rather the deduction should be on the amount at which the eight cents exceeds the field average, a deduction which for instance, we say is five cents by way of comparison and the deductions should only be something in the neighbourhood of three cents, which would mean a more equitable distribution

C-2-9
M-3-1 - 2.15 P.M.
Argument by Mr. McDonald.

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of the monies available as between the producers and would be in accordance, I submit, with the scheme which the Board had in mind at the very commencement of this Hearing and which I submit takes care of the solution of the problem which the Act contemplated, that is uniform sales, sales for the market of gas on a uniform basis from the field as a whole.

Another point I wish to comment on is with regard to Gas & Oil Refineries' submission. So that there will be no mistake in the matter I checked the appraisal value set out in Schedule "A" to Exhibit 171, that is the submission made by Mr. Scrimgeour for the Gas & Oil Refineries Company in which the appraisal values of the General Appraisal Company of Vancouver are used as a basis. I checked them against Mr. Hill's schedule values being included in the statement of unit price development, which he filed at the request of Mr. Blanchard, and it is supplementary to Exhibit 59.

I think that I was correct in my comparisons which I mentioned the other day that Mr. Hill's costs for four and a half inch pipe including the pipe itself, freight loading, ditching, welding, coating, wrapping and back filling amounted to \$1.28, as compared to the amount set out in Exhibit 171 for similar pipe, and the only similarity we have Mr. Chairman, is that it is four and a half inch pipe. We do not know anything of the quality or weight, is \$1.89 plus 24 cents for trenching, plus an additional allowance for supervision, which I state in all is approximately \$2.20. That is \$1.28 as against \$2.20.

Similarly the prices I have mentioned for eight inch pipe, namely \$2.26 being Mr. Hill's valuation as against \$2.49, plus 24 cents for trenching, plus supervision at about ten cents per foot, being a total of \$2.83 on the basis

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of Exhibit 171.

As I mentioned also when Mr. Mahaffy was making his statement, Mr. Hill's figures are the undepreciated costs. In other words his gross valuation and the costs included in the Madison rate base were depreciated cost figures.

Now sir Mr. Mahaffy mentioned the transactions between Gas & Oil Refineries Limited and the Gas & Oil Products as being a sale and purchase. I have nothing to say in regard to that except that the Companies are still closely associated and I submit that under Section 49 (2) of the Act, the Board is entitled to look at the circumstances of ownership of these assets when title was still with the Gas & Oil Products Limited.

Now with regard to the fact that Mr. Hamilton had difficulty in ascertaining historical cost, I again feel that this is a circumstance which creates uncertainty, but again the best evidence available is that of Mr. Hamilton, and that is the evidence I suggest the Board must act upon.

With regard to Exhibit 193, filed by Mr. Mahaffy, in which he suggests that the allocation of the gathering costs be made on the basis of ^{the} net amount of gas used in the absorption plant operations and the residue market with the result that the flared and shrinkage volume be apportioned between the two uses, raises, I confess, a difficult problem. The flare in the Gas & Oil Refineries area is different to the flare in any other area.

I feel that a realistic attitude should be adopted and that to allocate to the marketing the cost of gathering gas of which there is no possible chance of it ever reaching the market and which is not gathered obviously for the market

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because no transmission line is available, cannot justifiably be charged to the market.

I am prepared to leave the matter to the Board's discretion, but I suggest that this flared gas is in exactly the same position as that gas in different areas in the north end and in the south end in respect to which the Board has not seen fit to authorize an extension of the gathering system and which is now being flared by the lease owner on his lease and it is a loss which I think the producer must accept. The gas cannot in any way be counted as being in the sharing position.

Now, sir, dealing with the British American Company. I mentioned that I would deal with the question of depreciation basis limited to the throughput for ten years. It occurred to me that with respect to the high pressure compression and the transmission that the considerations which Mr. Harvie mentioned this morning obviously apply.

That is, the balance of the system may be dealt with on ten year throughput on an assumption of gathering for ten years, but it is obvious that the transmission line and the high pressure compression required to remove the gas will be in use for a considerable period and I leave it to the Board as to the disposition they wish to make of the suggestion.

I do not object, of course, to the use of a throughput depreciation base related to the ten years as I think we must at this stage at least face the obvious suggestion that the gas may be commercially gathered only for a period of ten years, but if during the course of the use of the line, the life of the field is to be extended then the question of revision on a throughput basis can be dealt with.

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With regard to working capital. I am, sir, quite prepared to see the British American Company be allowed the necessary working capital along the same lines as suggested by Mr. Harvie yesterday, namely, that any additions of inventory be added to the cash requirements that he outlined in his Exhibit 184.

Now with regard to the other matters mentioned by Mr. Harvie this morning. I do not feel that I can add anything to what I have already said.

I omitted to set out in my argument-in-chief what I thought was the producers' position. There is one thing, sir, that I omitted and which I think I should make clear in fairness to the producers whom I represent. That is, sir, that the meetings of the Gas Producers Committee which dealt with the question of repressuring in the South end and which are contained in the letter dated June 10th which I filed with Dr. Boomer in June of 1944, was written on behalf of the Producers Committee which then comprised almost entirely the South end producers.

During those discussions the Royalite Company was not represented. During those discussions also Mr. Shultz who is in charge of the activities of the Major Oil Company Limited was not in attendance, and I do not wish to be on record as conveying to the Board that that letter or representations made by me at that time were made for and on behalf of those producers who are North end producers.

There is only one comment I have to make with regard to the matters mentioned by Mr. Harvie this morning in which he outlined the benefits accruing to the South end producers arising out of the installation of the low pressure system as compared to the installation of the Madison "A"

The first part of the paper discusses the importance of the study of the history of the United States. It is a study of the past which helps us to understand the present and to prepare for the future. The second part of the paper discusses the importance of the study of the history of the world. It is a study of the past which helps us to understand the present and to prepare for the future. The third part of the paper discusses the importance of the study of the history of the United States. It is a study of the past which helps us to understand the present and to prepare for the future. The fourth part of the paper discusses the importance of the study of the history of the world. It is a study of the past which helps us to understand the present and to prepare for the future. The fifth part of the paper discusses the importance of the study of the history of the United States. It is a study of the past which helps us to understand the present and to prepare for the future. The sixth part of the paper discusses the importance of the study of the history of the world. It is a study of the past which helps us to understand the present and to prepare for the future. The seventh part of the paper discusses the importance of the study of the history of the United States. It is a study of the past which helps us to understand the present and to prepare for the future. The eighth part of the paper discusses the importance of the study of the history of the world. It is a study of the past which helps us to understand the present and to prepare for the future. The ninth part of the paper discusses the importance of the study of the history of the United States. It is a study of the past which helps us to understand the present and to prepare for the future. The tenth part of the paper discusses the importance of the study of the history of the world. It is a study of the past which helps us to understand the present and to prepare for the future.

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system and that is as I understand the Madison "A" system it eventually would have operated at a fifty pound intake or suction pressure which would have enabled a large proportion of the reserve which will be taken care of now by the British American Oil low pressure system, still to be taken account into the Madison "A" system. That, sir, is problematical because as I mentioned the other day it was not developed to the extent that it might have been if the producers had not been satisfied with the British American proposal.

I do not know, sir, that there is anything that I can add to what has been said with regard to the apportionment of costs. As I pointed out the other day, sir, I feel that in dividing the costs as between the absorption plant and what I call the consumers' market in my calculations the effect is a division between the absorption plant in which the producers have an interest and in which they will bear some of the costs possibly, and also between the consumers' market in which the producers net return or net value of gas will be affected again by those costs which arise because the consumers' market and to that extent the producers are as it were paying their share from both approaches to the problem although I have not dealt with them as dealing with so much percentage in the market.

Now there is only one thing to mention in regard to reserves and that is as I feel Dr. Katz' estimate is conservative enough for the purpose of allocation of depreciation. At the same time it is liberal enough for the purposes of arriving at throughput depreciation from the viewpoint of the investor and the rate of return.

Now, sir, I must deal with the comment made by Mr. Steer when he referred to the delirious results obtained

Argument by Mr. McDonald.

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from a perusal of the figures submitted by myself.

Now, sir, I feel that the figures can speak for themselves, but my own conclusion is that the most delirious state which I can imagine anyone to be in is to be a director or shareholder of a company which enjoys a rate of return of $8\frac{1}{2}\%$, not upon its own rate base but on some intangible sum of money buried somewhere in the inviolable accounting records of the company.

THE CHAIRMAN: That is a very interesting comment, but there is no evidence to support it.

MR. McDONALD: That is true, sir, but that is just a take-off on the delirious statement.

THE CHAIRMAN: It is a very nice phrase.

MR. McDONALD: Yes, I admit it is entirely a nice phrase. With regard to Mr. Steer's comment in which he pointed out that in 1948 there would be a decline in sales by the Gas Company of some three million MCF, I intended to make it clear and I am sure the Board understood that when suggesting a price to the Gas Company the price should be fixed on an overall basis for a fixed period.

We have been more or less framing our submissions to the Board on the proposition that the prices will be fixed for possibly three years. That is for 1946, 1947 and 1948, and I fully contemplate that applying the relevant figures which I submitted by way of establishing the price at the well head, the Board will take into account both production and sales over the relevant period of three years.

(Go to Page 7495)

1. Introduction

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3. The first part of the document

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7. The fifth part of the document

8. The sixth part of the document

9. The seventh part of the document

10. Conclusion

11. Appendix

12. References

13. Bibliography

14. Index

15. Glossary

16. List of figures

17. List of tables

18. List of appendices

19. List of references

20. List of bibliographies

21. List of indexes

22. List of glossaries

23. List of figures

24. List of tables

25. List of appendices

26. List of references

27. List of bibliographies

28. List of indexes

29. List of glossaries

Argument by Mr. McDonald.

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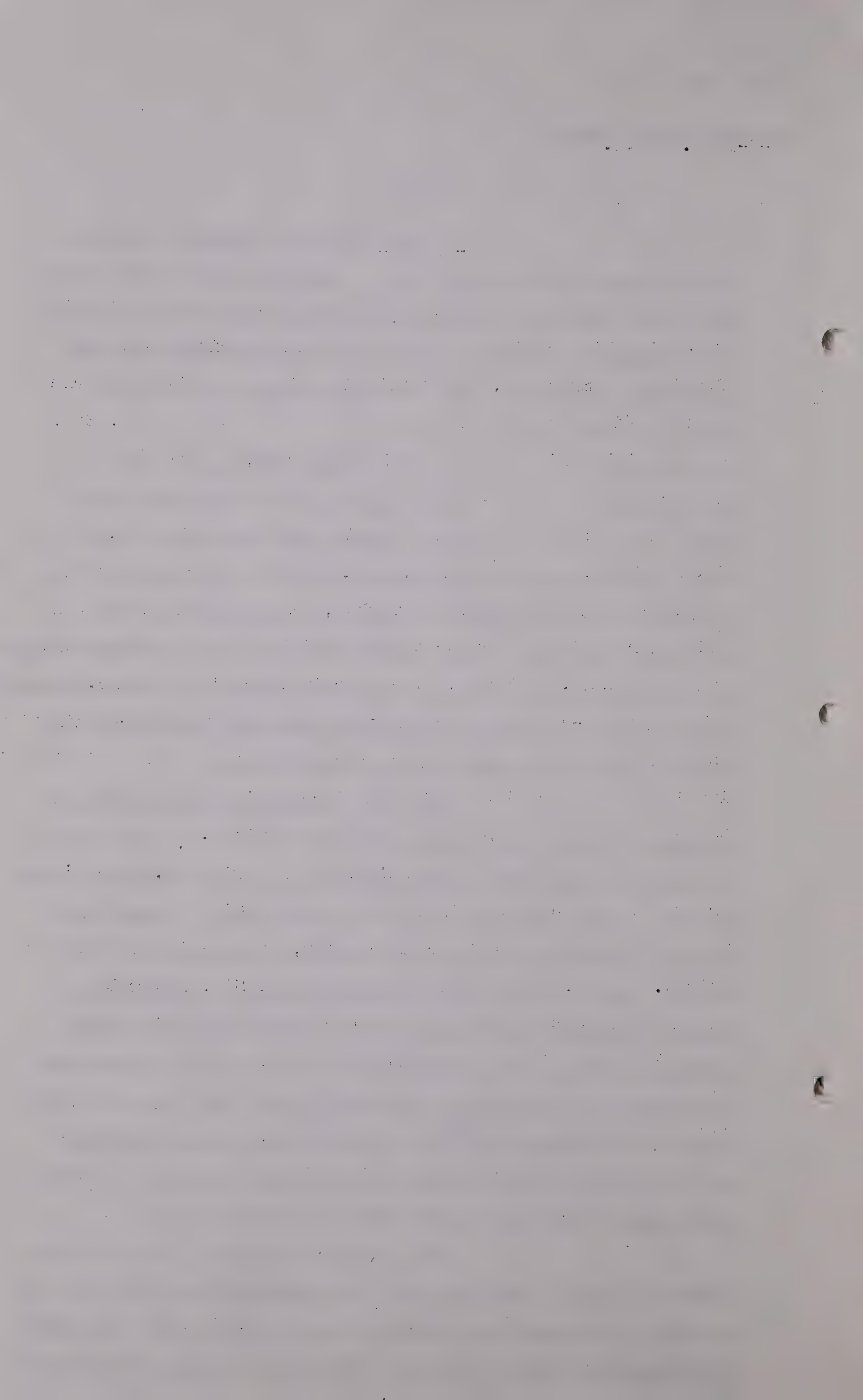
It may be so that when the price is fixed in this Hearing that upon other Hearings of the Public Utilities Commission, the Commission will deal with the price to the ultimate consumer, which may have repercussions, Sir, on the field price and the well head price, and that is a matter in the future.

THE CHAIRMAN: In the distant future, I hope.

MR. McDONALD: Now, dealing with other sources of supply of gas to the Calgary market, all I can say is that I fully agree with the understanding which you exhibited on the evidence of Mr. Galloway. I concur in your view that Mr. Galloway's so-called offer was not borne out on cross-examination as being predicated upon any real consideration of the difficulties involved in the delivery of the Princess Field gas to the Gas Company lines in the South end of the Province.

Now, Sir, dealing with Mr. Fenerty's argument, I understood him to say that the City of Calgary had not made any requests for conservation, or that it had not been desired. Now, with regard to that point, Sir, I submit as a matter of common knowledge, that during consideration of the Natural Gas Utilities Act as contemplated, as a contemplated piece of legislation, the city Gas Committee was kept fully informed of the various drafts of the Act, and the expressions of policy of the Government contained in the Act, and was fully aware of the purpose of ^{the} Act to provide for a common purchase and sale of gas in the Turner Valley, and some measure of repressuring of the excess production of crude oil gas.

Now, I suggest too, Sir, that it is a matter of common knowledge that no representations were made by the City of Calgary that the Act should provide that the costs of repressuring should be borne entirely by crude oil producers



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or that the cost of repressuring was to be borne by the absorption plant operators. It must therefore be considered that the matter of assessing the cost of repressuring, that part of the scheme, and control of the Natural Gas Resources of the Province, was left to the sole discretion of this Board to be dealt with on a just and reasonable basis.

Now, there is only one comment I might make.

MR. FENERTY: I do not like to interrupt, but I must say I am sorry if I conveyed the impression that the City of Calgary was not interested in this field. Of course it is. It is very much interested in this field. What I intended to say was that it did not take the position that it was entitled to this gas come what may, and that it would pay any price for it. It was interested in this field and it was interested in gas at a price, and that is what I intended to say.

MR. McDONALD: I just make this general observation, Sir, that it should be borne in mind that in the Fall of 1943 and the early Spring of 1944, there had not yet been developed in the Province of Alberta gas reserves which could in any measure be considered as capable of substituting a supply of gas or being used as a substitute for the supply of gas for the City of Calgary, which was then and is now available from Turner Valley. I believe the record bears that out, Sir, that discoveries of gas as outlined in the statements filed with regard to the other sources, show that discoveries upon which Mr. Galloway relied on, or to which Mr. Galloway referred, and which some of the other witnesses referred to, only became developed to a point where they could be considered as reserves subsequent to the first meeting of this Board.

Now, dealing, Sir, with the several

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references to the Weymouth Plan by Mr. Fenerty, and by Mr. Steer, in which they emphasized that he pointed out that the production of gas was dictated by the oil and naphtha operations rather than by the demand for gas as a fuel. This reminds me, Sir, that in his report Mr. Weymouth measured in a tangible way the benefits of his proposed conservation program to the Gas Company and the consumers served by it. It was fundamental to his program that the Gas Company and the City both, the Gas Company representing the consumers, would receive a very appreciable benefit from the conservation measures and, therefore, should contribute to the cost of the conservation program.

I would just refer to one short sentence on page 21 of the Report, in which he stated:

"In view of the fact that this whole conservation plan is proposed for the benefit generally of the gas consuming public, it is logical to assume that these consumers should bear their proper share of the costs of the project. The purpose of this study and the typical solution of the problem does assume that the money value of the benefit to the public is at least equal to the benefit to be realized by the Gas Company which is shown above to be estimated at \$6,250,000.00. This, therefore, will be used as the share of the proportion of the cost which the gas consuming public should bear in the establishment of the plan."

Now, I do not wish to be taken, Sir, as inferring that any calculations made by Mr. Weymouth are of practical application today. Much water has passed under the bridge since his submission was made. But I do suggest that in his consideration some reasonable amount of

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those costs, which are now being charged in submissions made as what we shall call "extra costs" against the gas consuming public, were contemplated by Mr. Weymouth. And I suggest that because it was contemplated in his proposal, which in a large measure was the foundation of the thought applied to the preparation of this Act, and that it was contemplated as a result of the Act, that the Board can very well not adopt the view advocated by Mr. Fenerty and Mr. Steer, but give a proportion of those costs which are added, and which come ahead of the price of gas at the well head, as being properly chargeable against the market as a whole.

Now, Sir, it has been drawn to my attention that, and I am not sure, Sir, whether it is definitely dealt with in evidence, I did not have an opportunity of going through Mr. Davis' and Mr. Zinder's evidence, but it has been drawn to my attention, and it is a well-published fact, appearing in all the journals, that the Conservation Boards in the State of Kansas, Oklahoma and Texas for the past year or more, have directed their efforts towards gathering and making available for market the gas produced with oil, often in preference to gas produced from dry gas reservoirs. I do not know enough about the application, or the principles applied to it, but I do cite that as showing that when this Board is dealing with the storage of gas produced with oil, they have either anticipated or are following a policy which other Conservation Boards have adopted.

Now, Sir, by way of general comment on the arguments advanced by my learned friends, Mr. Steer and Mr. Fenerty, with regard to the matter of gas at the well head.

It appeared to me that Mr. Steer rested his case entirely on the adoption of what he termed the

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historical price of 2 cents per MCF. Mr. Fenerty seems to rest his argument on his contention that the gas should be valued as a by-product or a waste product only.

Now, Sir, I have the impression throughout the Hearing, and I did give some consideration to it, because I had contemplated several times the calling of witnesses to give direct evidence with regard to the historical price, and to amplify what the record does contain with regard to why there was a waste product in Turner Valley, and to some aspects of its by-product value, but I felt, after consideration, that the history of Turner Valley has no bearing upon the present problem of the Board, namely, to fix a just and reasonable price at the well head.

What has happened in Turner Valley with regard to the use of materials and the equipment there, I think that history has had a part in establishing the rate base with regard to utilities, and with regard to the prices. And I suggest to the Board that the purpose and intention of the Act is to lay the foundation for a new conception of the value of gas, having in mind the establishment of a just and reasonable price therefor as part of a reasonable conservation of gas as a wasting asset. As many of the witnesses mentioned, any one can be persuaded to conserve that which has a value, but it is only in a Utopian state that one can be persuaded to save something which has no value.

The greatest incentive and reason for conservation is the establishment of a real value for gas at the well head. This will have an effect and is now having an effect in Turner Valley, but also in every field and on every occasion in which gas is discovered and the subject of production,

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either alone or with oil. This is the viewpoint referred to by Mr. Zinder in his Exhibit 136, in which he outlined some of the wider aspects of the natural gas business.

Now, it is my submission, Sir, that this Board is charged to deal with the facts as they are now, and on these facts has to establish and to exercise its own reasonable judgment as to what should occur in the future, and for the purpose of laying down principles which will shape and guide the natural gas industry in a course of harmony and in the interests of the Province as a whole.

I submit that some of the facts which the Board must give consideration to are as follows:

First, that there is an available reserve in Turner Valley of some 361 billion cubic feet as of the 1st of January, 1945.

Two, that the installations authorized by the Board in Turner Valley have reduced to the economic minimum the loss of gas legally produced in Turner Valley.

(Go to page 7501.).

1. The first part of the report deals with the general situation of the country and the results of the survey. It is a very interesting and informative study of the country and its people. The author has done a great deal of research and has gathered a wealth of material. The report is well written and is a valuable contribution to the knowledge of the country and its people. It is a must-read for anyone interested in the country and its people.

2. The second part of the report deals with the results of the survey. It is a very interesting and informative study of the country and its people. The author has done a great deal of research and has gathered a wealth of material. The report is well written and is a valuable contribution to the knowledge of the country and its people. It is a must-read for anyone interested in the country and its people.

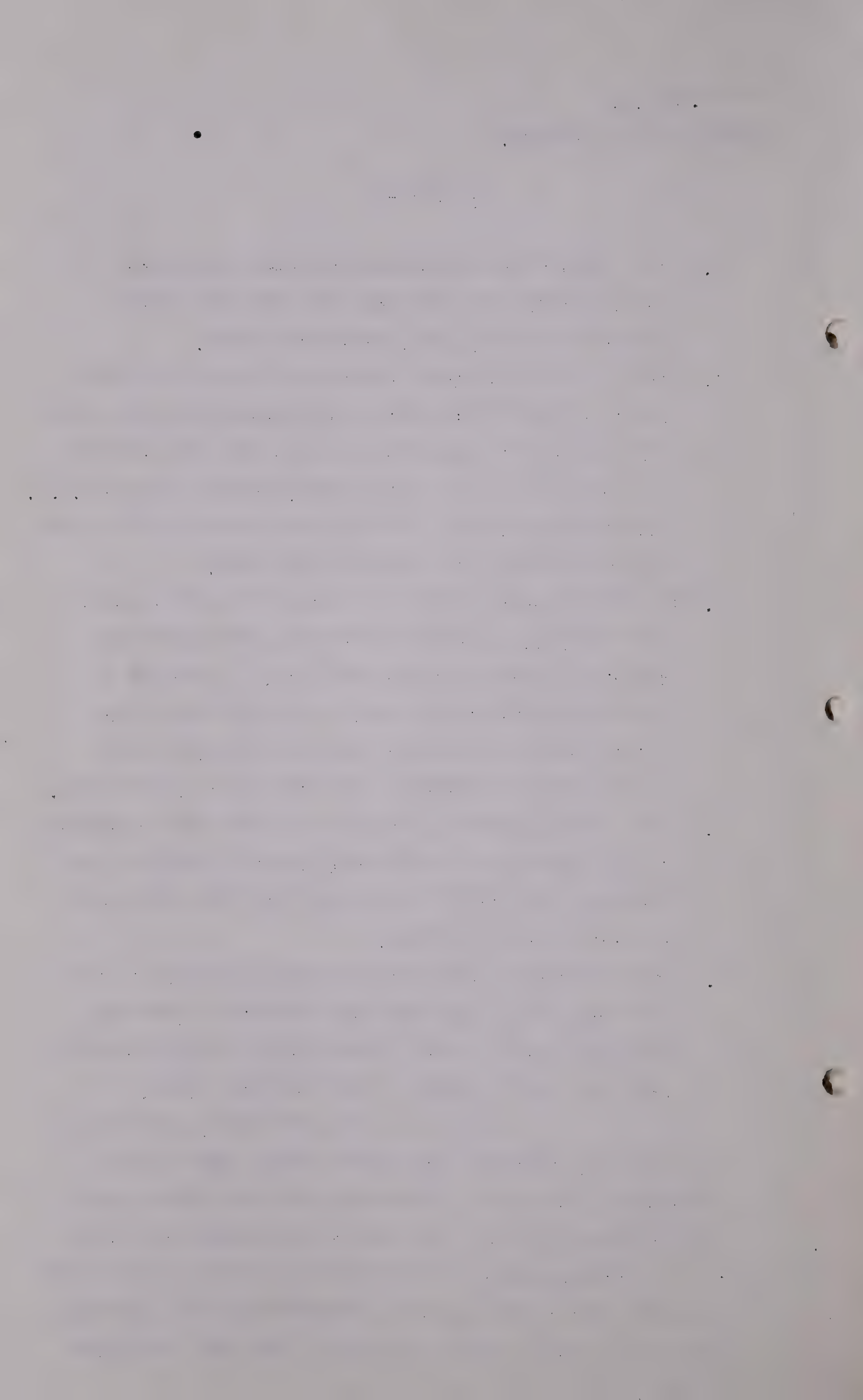
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3. That all of the gas produced in Turner Valley is produced with the permission and under the legal allowable fixed by the Conservation Board.
4. That on a cost analysis applied in the most accurate way that the Board's Auditor could ascertain, the actual cost of producing gas, be it either from Gas Cap well or a combination oil and gas well, exceeds 11¢ per m.c.f. allowing the producer of such gas a return of 8% on his present remaining investment in the well.
5. That the so called historical price of 2¢ was a price offered by the Royalite Company to other Companies desiring to deliver their gas to it. It was not a negotiated price in any sense of the term and does not indicate the value of the gas at the well head to the Royalite Company at the time the 2¢ was offered.
6. That gas is presently being sold in the City of Calgary in the domestic and commercial classifications at less than the competitive value thereof to the consumer by a margin of at least 10¢.
7. That sufficient information has been furnished to the Board upon which the Board can establish a just and reasonable rate for the transportation of gas from the well head to the outlet of the scrubbing plant.

In view of the above facts, and because there is no historical basis or cost basis upon which to approach the problem of determining the price of the gas at the well head the Board must look to the competitive value in the ultimate market of the gas and from such consideration determine what in its informed judgment would be a just and reasonable price to pay for the gas at the well head after



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due consideration of the costs of transmitting the gas from the well head to the ultimate consumer.

That is all I have to say.

THE CHAIRMAN: Is there anyone else who wishes to say anything? Have you anything, Mr. Steer?

MR. STEER: No, sir.

THE CHAIRMAN: Mr. Fenerty?

MR. FENERTY: No.

THE CHAIRMAN: Then that means that the Hearing is concluded, unless anyone desires to say anything on the question of costs or who should pay them and on what scale and how they should be dealt with. I know that the Board has very substantial costs and so has the Attorney-General. I am quite satisfied that the Province does not expect me to just have the Province bear all of these costs for the benefit of whoever benefits. Well, gentlemen, if you want to think about it and express your views to me at a later date I will be glad to hear you, but I shall not come to Calgary just for the sake of hearing argument on costs. I think it is about time some of you gentlemen came to Edmonton and told me your little story up there. So that if you think about costs and think you should tell me something about it, I will be glad to hear you.

In the meantime I can promise that I shall not commence consideration of my decision until September. There are reasons just why I cannot begin before that date.

In the meantime I want to express to all of you individually, jointly and severally how much I appreciate the way the Hearing has been conducted and

Argument by Mr. McDonald.

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as I said once before, in spite of the odd breeze, on very harmonious terms. I have had the greatest assistance from witnesses and from all counsel who have been here. You may not like my decision when it comes but I do want you all to know, every one of you, how much I have appreciated the help I have had from every person who has appeared here. If you do not like my judgment, you will realize that human progress has gone on by the simple process of trial and error and when you discover the error you try to correct it thereafter as may be and in 5 or 6 years perhaps we will have a system that will be reasonably just and reasonable. I thank you.

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